

# EIR

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Russia is Eurasia's keystone economy  
Southeast Asians agree: The IMF is the problem!  
Latest assault on Clinton is backfiring

**LaRouche lays out policy for  
global economic recovery**



*The cults of 'political correctness,' the world of make believe into which the frightened '68'ers had fled, are no longer the unchallenged wave of the future. The back-to-reality cultural paradigm-shift, is the changed political opportunity to which wise statesmen will hitch the destiny of their nations.*

—LYNDON H. LAROCHE, JR.  
March 5, 1998

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## From the Associate Editor


**I**n Washington, D.C. on March 18, some 200 people, representatives from 20 nations, including many foreign embassies and journalists, plus policymakers and activists from the United States, attended the briefing given by Lyndon H. LaRouche, Jr. at an *EIR* seminar on the need for a New Bretton Woods System. LaRouche's magnificent speech, published in full in this issue, tells you everything essential that you need to know, if you are looking for answers to the economic collapse and cultural/political Dark Age that are now upon us. The echoes of this speech will be heard in many a nook and cranny of Washington, and other world capitals. *EIR* News Service is rushing into circulation a 56-minute video, containing highlights from the speech; it will be available by April 1, for \$25.

As a counterpoint to this intervention, see *National Economy* for a fascinating dialogue between LaRouche and Russian economist Dr. Sergei Glazyev, on what can be done to save Russia's economy from the destruction being wrought by disastrous monetarist policies.

Truly, the New Bretton Woods System is an idea whose time has come. Since LaRouche called for it a little over one year ago, the world has changed in many ways:

- The financial collapse forecast by LaRouche has hit Southeast Asia and Japan with typhoon strength. The IMF's so-called bailout packages proved a total failure, as leaders from the region now publicly recognize. (See *Economics* for news updates.)
- In Germany, unemployment hit the highest level since the Great Depression—and that was *before* the effects of the Asian blowout began to be felt on Germany's export-oriented economy.
- We see the beginnings of a cultural paradigm shift, away from the insane policies that brought us into the crisis we now face. This manifests itself, among other ways, in growing worldwide interest in LaRouche's ideas, as we report in this issue.

The Clinton administration is now preparing for a series of meetings in April, on the economic and financial crisis. No agenda has been submitted for those discussions; yet, they could provide the opportunity for the kind of revolutionary change that is required. In this issue, we tell you what the agenda must be, and what qualities of leadership are required to carry it out.



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In a speech to an *EIR* seminar in Washington, D.C. on March 18, Lyndon LaRouche outlined the strategic approach to restoring the world economy to health, and the type of leadership required to implement a New Bretton Woods system. "The customary objection will be, that such a sudden and radical approach is 'politically impossible,'" LaRouche writes. "Let those political leaders who lack the will to carry out the measures I have proposed, get out of the way, and pass the authority to act to those among us who are willing and able to enact these measures, and do so suddenly."

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## Southeast Asians agree: The IMF is the problem!

by Gail Billington

Temperatures are rising and patience is running out in Southeast Asia, but El Niño is not to blame. Not in decades has the volume and intensity of criticism of the International Monetary Fund (IMF) and its structural reforms been heard from as many heads of state and senior ministers as in recent weeks. Led by those closest to the “Asian contagion” that began in May 1997 with George Soros’s and other hedge fund attacks on the Thai baht, a polyphonic chorus of voices is sounding the refrain that not only have the IMF bailouts in Asia not halted the economic collapse, but the worst is yet to come, especially through the end of 1998, *because* of conditions imposed by the IMF.

Included in these criticisms is *EIR* Contributing Editor Lyndon LaRouche’s presentation to a packed, March 18 seminar in Washington, D.C., detailing what must be addressed at the April 16 meeting in Washington (the Willard Group) of 22 nations on the world financial system. In a radio interview with “EIR Talks” on March 17, LaRouche summed up the situation as follows: “The best thing the IMF could do, is to disappear, in its present form. Somehow, if we can get [IMF Managing Director] Michel Camdessus and his crew of pirates on some abandoned spaceship or something and send them off—maybe we’ve got an old *Mir* floating around there, that the Russians want to get rid of . . . and give them enough equipment to send signals back once in a while, but not to send back any advice—and *get rid of these guys!* Because anything they say, just makes it worse.”

Governments, LaRouche said, are going to have to say what they don’t wish to say, that radically new things, embodied in his proposal for a New Bretton Woods system, “are going to have to be adopted, or else.”

In Asia today, governments are increasingly ready to say what *doesn’t* work. Malaysia’s Prime Minister Dr. Mahathir

bin Mohamad was the first to speak out against the IMF’s covering up for foreign hedge funds, which precipitated the 10-75% collapse of regional currencies, and then, under cover of its “structural reforms,” forcibly imposed conditions that could only lead to further looting of national economies through forced privatization, liberalization, and sell-offs to foreigners.

Where Dr. Mahathir was a relative lone voice in July 1997, warning that the methods used by the IMF would lead to a new colonization of these economies, since early February, leaders of the principal nations in Southeast Asia have joined in. In the Philippines, Senate President Neptali Gonzalez, at the National Economic Summit in mid-February, sharply rebuked the IMF and World Bank for blaming the crisis on domestic policy mistakes, and demanded that if these institutions cannot solve the Asian crisis, then they should be replaced or reorganized. He zeroed in on the continuing volatility of currency markets, concluding that if “massive and sudden” capital flight continued to be tolerated, then globalization “will always become a threat” to nations. In mid-March, Dr. Jesus Estanilao, Finance Minister in the Corazon Aquino administration, called for re-pegging the peso to a basket of currencies, including the dollar, yen, and euro.

### **The IMF’s fatal blunder in Indonesia**

The IMF’s decision in early March to delay release of the next \$3 billion tranche of funding to Indonesia, only three days after approving additional funds for Thailand, has done more to shatter the IMF’s credibility, and to precipitate a regional consensus that the problem lies with the IMF, than any event since the onset of the crisis. The move was in direct response to President Suharto’s March 1 inaugural address to the People’s Consultative Assembly, in which he declared the

terms of the IMF \$43 billion bailout to be “fatally flawed” because it was “too small, too slow, and fails to constructively address the whole problem of stabilizing the rupiah,” which, at that point, had collapsed 75% from its value in July 1997.

President Suharto’s subsequent raising of a conflict between the IMF’s prescribed “reforms” and Article 33 of the 1945 Constitution, on the responsibility of government to protect the general welfare, triggered a closing of ranks among the major factions in the Assembly behind President Suharto, his new Vice President, well-known pro-industrialization nationalist Dr. B.J. Habibie, and a new cabinet dominated by leading economic nationalists. Chief among these is Ginandjar Kartasasmita, Coordinating Minister on Economics, Finance, and Industry, who is now leading the Indonesian team in new negotiations with the IMF, but who has made clear to all concerned that, while Indonesia acknowledges the need for domestic economic reform, it will proceed on Indonesia’s terms, “with or without the IMF.”

The IMF’s slap to Indonesia sent shocks throughout the region. Singapore Prime Minister Goh Chok Tong told a group of visiting Mexican journalists during the first week of March that the IMF must draw up new rules to prevent large and destabilizing transfers of currency. He warned that failure to end the currency turmoil, and a perception of inadequate help from the West, could lead countries forced to “swallow bitter medicine” prescribed by the IMF to make a “reassessment.” Singapore’s leading daily, the *Straits Times* on March 10, quoted Philippines President Fidel Ramos’s warning to the IMF “to restrain from pushing already battered economies to the depths of depression.”

In Malaysia, Deputy Prime Minister and Finance Minister Anwar Ibrahim dispatched an urgent message to the IMF and the finance ministers of the Group of Seven (G-7) countries, stressing the complexities of the Indonesian situation and the potential for “contagion,” and urging accelerated disbursement of funding. The response from the G-7, he reported, was “a standard argument—continue to liberalize, open up our economy . . . implement the IMF program.” A senior economic adviser to the Malaysian government, Daim Zainuddin, challenged the IMF on the issue of “moral hazard.” “Why is it that everybody does not criticize when there is a bailout of a foreign bank? The lenders were reckless and careless, the borrowers were reckless and careless. At the end of the day, they know the IMF is going to bail them out, so they continue to lend, knowing . . . these are going to be bad loans. . . . This is moral hazard, isn’t it? When it comes to local banks, the foreigners tell us, ‘Don’t bail out.’ ”

In Australia, the IMF’s treatment of Indonesia has triggered the most unprecedented crisis, pitting the Treasury against the Reserve Bank, and provoking extraordinarily strong statements in support of Indonesia and against the IMF from the Prime Minister and Foreign Minister, leading to the latter’s emergency trip to Washington on March 19 (see p. 8).

## No sign of recovery

The more than week-long stalemate between Indonesia and the IMF only began to be resolved with Japanese Prime Minister Ryutaro Hashimoto’s two-day trip to Jakarta on March 14-15. The seriousness of the IMF’s blunder in dealing with Indonesia is evidenced by the number of senior officials present in Jakarta through the weekend, including U.S. Treasury official David Lipton; Japan’s Deputy Finance Minister for International Affairs Eisuke Sakakibara, who called for a New Bretton Woods on March 2; and Director General of the German Finance Ministry Klaus Regling. The watchword coming out of the weekend sessions was the need for “flexibility,” especially related to IMF demands for dismantling monopolies affecting pricing and distribution of essential foodstuffs and medicines.

Asia-Pacific Director Hubert Neiss arrived for meetings in Jakarta on March 18, to be led from the Indonesian side by Ginandjar Kartasasmita and Radius Prawiro, who chairs the committee tasked to settle the prickly problem of the \$73 billion in private sector foreign debt, which has been under de facto moratorium since January. A series of five reviews were agreed to, covering monetary policy aimed at stabilizing the rupiah; the banking sector; fiscal policy related to the budget, which has twice been blown out by the combined effect of the collapse of the currency and the collapse in revenues due to the fall of the world price of oil; structural reform; and, to be addressed for the first time with IMF involvement, the private sector foreign debt.

Vice President Habibie flew to Japan to meet with Prime Minister Hashimoto and a number of other ministers, political leaders, and Indonesia’s largest foreign creditors on March 18-20. Early reports quoted Habibie reiterating that Indonesia wanted to carry out the IMF reforms, as long as they do not conflict with Indonesia’s Constitution. He indicated there had been some discussion on re-pegging the rupiah to a basket of currencies, including the dollar, yen, and euro. From Jakarta, Bank Indonesia (the central bank) Governor Sjahril Sabirin told the Hong Kong daily the *South China Morning Post* on March 19, that Jakarta is still looking for alternatives to a currency board scheme, including a return to setting trading bands on the rupiah.

Indonesia is not alone in this crisis. Singapore’s big four banks were downgraded from “stable” to “negative” by Moody’s Investors Service on March 5, due to the decline in the Singapore dollar and loan exposure in Indonesia, Malaysia, and Thailand. On March 19, Singapore Deputy Prime Minister Lee Hsien Loong informed Parliament that the six major banks recorded a 30% decline in profits for 1997, and is making provisions for \$1.21 billion in nonperforming loans to Indonesia, South Korea, Malaysia, Thailand, and the Philippines. Singapore has also announced a downward revision in the expected growth rate to 2.5-4.5%, from 7% in 1997.

The downgrade of Singapore’s banks was, according to Moody’s, keyed to “increasing difficulties in the Malaysian

domestic economy,” reflected in reports on March 6 of some 1.8 billion ringgit (\$454 million) in losses by the banking arm of Malaysia’s largest private sector firm, Sime Darby, and the urgent need for a 750 million ringgit (\$189 million) capital injection into the second-largest banking group, Bank Bumiputra. The following week, Deputy Prime Minister and Finance Minister Anwar Ibrahim hinted that the government was prepared to allow weak banks to close, after an eleventh-hour bailout of Sime Bank was negotiated with the second-largest bank, Rashid Hussain Berhad, which saved the state pension fund from losing its 30% stake in Sime Bank, valued at 750 million ringgit (\$190 million), a loss that would have bankrupted the fund. On March 15, Anwar Ibrahim told a conference of 800 builders and developers that the country’s growth projections would have to be revised downward for the second time from the current 4-5% to what analysts think will be in the range of 2% due to falling revenues. He warned that more projects would be postponed, while priority is given to poverty eradication and public health.

### IMF’s imperial tactics

As the conflict between the IMF and Indonesia was coming to a head in early March, there was a clear and dangerous ploy by the IMF to play Indonesia against its neighbor, Thailand. On March 4, the IMF released the next tranche of funds for Thailand, which was followed by pledges valued at \$2 billion in export credits and loans from Japan and a further \$1 billion in export credits from the Asian Development Bank, while U.S. Treasury Secretary Rubin indicated the United States would support additional funds for Thailand, if needed.

The day before, March 3, the National Economic and Social Development Board (NESDB) issued its latest growth projections, warning that the Thai economy would experience negative growth of 6-6.5% through the third quarter 1998, with a slight chance of an uptick at the end of the year. The same day, data were released showing a 50% collapse in Thai imports, year on year, from January 1997 to 1998, and the possibility that non-performing loans held by Thai banks would rise to 40% this year.

During his high-profile, and successful, trip to Washington on March 11-17, Prime Minister Chuan Leekpai put the lie to any idea of a “quick recovery” in Southeast Asia. In an interview with the *Washington Post’s* Bangkok correspondent, reported on March 12, Chuan said of the crisis, “Quite frankly, no, it has not passed yet. We can compare it to a bomb. . . . But now we have the task of cleaning up the debris. . . . That task will take a bit more time.”

As special guest at a dinner hosted by the New York Council on Foreign Relations on March 11, Chuan told an audience of 300: “We need all members of the international community and especially members of the G-7/8, who represent most of the world economic might, to look long and hard at the existing global system so that it can be reformed and rejuvenated

where necessary to ensure that the new growth cycle will be equitable and sustained.”

At that dinner, Prime Minister Chuan shook the hand of Soros, who, for political and financial reasons, led the most vicious and sustained attacks on the baht in 1997. On March 13, a deal was announced that Soros would participate in a spectacular \$650 million contract to bail out and impose foreign directors on the bankrupt Nakornthai Strip Mill, a cold-rolled steel mini-mill, one of the five most technologically advanced of its kind in the world, and the only one of its kind in Southeast Asia.

Chuan’s trip to the United States gave the Clinton administration an opportunity to renew strong relations with this long-standing ally, and to convey clearly and concretely a U.S. commitment to being part of the solution of the Asian crisis, by arranging a total of \$1.7 billion in assistance, the bulk of it trade-related financing. But the trip was cut short by a no-confidence measure introduced by Chuan’s opposition in Bangkok.

Spelled out by former Prime Minister Chavalit Yongchaiyudh, the censure motion featured two elements: blaming the 1993 government of Chuan Leekpai and his Finance Minister, then and now, Tarrin Nimmanahaeminda, for creating the “bubble economy” in Thailand through creation of the Bangkok International Banking Facility, the offshore banking facility, and, second, for associating with Soros. Chuan rebutted the charges, accusing the Chavalit government of wasting foreign reserves trying to bail out the bankrupt finance sector and in a futile effort to defend the baht against Soros’s predatory speculation.

Chuan Leekpai is expected to survive the censure motion handily, but the reputation of Soros and the IMF is suffering badly in the popular Thai press.

More alarming are signs that Soros is taking the first steps to do to Southeast Asia what he has done to Ibero-America in the wake of the currency and debt crises there since 1992, that is, to buy up lock, stock, and barrel productive capacity, precious raw materials, and land. The same week that Soros bought his way into a piece of the Nakornthai Strip Mill, reports surfaced that his Next Century Partners has been authorized to invest \$45 million in the Philippines. He also purchased another 75,000 hectares in Argentina, making him far and away the biggest landowner in the country, and expanding his wheat and beef empire. On March 18, the *Wall Street Journal* carried a news brief, reporting that South Korea is scrapping most restrictions on property ownership by foreigners. It will now be possible to buy land as an investment only, not necessarily for business. Thailand is also under tremendous pressure by the IMF to abandon restrictions against foreign land ownership.

Should those be lifted, it would not take any stretch of the imagination to find drug legalizer Soros matching his holdings in Bolivian coca production to real estate in the “growth” areas of Southeast Asia’s Golden Triangle.



# Japan's dilemma: Depression ahead?

by Our Special Correspondent

During the week of March 15, the Japanese Economic Planning Agency announced that the economic growth rate for the fourth quarter of 1997 was  $-0.2\%$ . This is the first time since March 1974 that Japan has been faced with a downturn in its physical economy. Unlike 28 years ago, this latest development represents a complete phase-change in the entire political-economic landscape in Japan. Though this is the first public announcement of a negative growth rate, most leading Japanese officials in the government and private sector identified the situation as the "Hesei Depression" long before the official statement. Hesei is the term designating the era of the present Emperor.

As a result of the ongoing crisis, Prime Minister Ryutaro Hashimoto and leaders of the ruling Liberal Democratic Party (LDP) find themselves unable to come up with an appropriate economic package to meet the looming depression. In the latest of a series of proposals, the LDP's chairman of the Policy Research Council, Taku Yamasaki, called for a \$77 billion public works and infrastructure building program. Immediately, Finance Minister Hikaru Matsunaga questioned whether Yamasaki's stimulus measures were needed, since the government had already announced a similar, but smaller package. Finance Minister Matsunaga continues to push a more fiscally driven budget austerity program, in which the deficit targets are more important than an economic stimulus package.

## Danger of hyperinflation

Complicating this situation is the fact that the Bank of Japan is pumping massive amounts of liquidity into the stock and money markets, in an attempt to artificially shore up the price of Japanese bank stocks prior to the March 31 close of the fiscal year. Japanese government and private banking officials are striving to keep the Nikkei stock market at the hallmark 17,000 level. All the leading political and financial figures in Japan fear that without foreign funds and Bank of Japan liquidity flowing into the banking sector, Japanese banks could suddenly collapse.

This potential hyperinflationary flood of liquidity comes at a moment when the so-called Asian currency crisis could re-erupt, following the failure of the International Monetary Fund's "rescue packages," especially in Indonesia. At this

point, were the offshore hedge funds, led by George Soros's Quantum Fund, to decide to attack the Indonesian rupiah, another massive currency devaluation could ensue, causing a meltdown of the global financial system. Unfortunately, the Japanese calculation in providing this massive liquidity (which over the last two months has increased by 43%), is that liquefying the banking sector will not cause a hyperinflationary spiral, because of the huge losses incurred throughout Asia during last November and December's devaluations.

U.S. concerns are also growing. An article in the March 15 *Washington Post*, entitled "Fears of Deflation Rising in Japan," quoted a U.S. government official saying that "the deepening economic downturn [is] of grave concern, [and we] are deeply worried that Japan's deflationary problems are gaining dangerous momentum and will send the economy spiraling rapidly downward."

## New Bretton Woods needed

A Japan with a collapsing physical economy, unmanageable bank debt (some estimate more than \$1 trillion), and a weakening yen (about 130 to the dollar) all portend that whatever thinking lies behind the International Monetary Fund's so-called stabilization plan for Southeast Asia, it is bound to fail, because it refuses to recognize the underlying economic cause of the Asian crisis. The U.S. approach is centered on Japan playing the central role in revitalizing the Asian nations' economies. However, the premise that all Japan needs to do is to absorb Asian exports with a "demand stimulus approach," is not only fraught with absurdities concerning the nature of the Japanese economy, but fails to take into account the collapse of most of the manufacturing sector in Asia—the result of the IMF plan.

The only clear alternative is what *EIR's* Contributing Editor Lyndon LaRouche has proposed: a New Bretton Woods system. Echoing LaRouche's proposal is Japan's Vice Minister for International Financial Policy Eisuke Sakakibara, who not only openly challenged the IMF's approach, but declared that now is the time for establishing a New Bretton Woods. Sakakibara's call, in an interview with the March 1 *Mainichi Shimbun*, came in the middle of the greatest scandal in the Ministry of Finance's history, and at a time when it appeared that the "mandarins" of the budget and tax office of the Ministry of Finance were committed to only a budget austerity package.

With the appointment of a new Bank of Japan governor, Yu Hayami, who, according to Japanese sources, is not hostile to Sakakibara's call for a New Bretton Woods, it is possible that a new political combination can emerge in Japan to lead Asia out of this crisis. Were Hashimoto to push this idea at the upcoming Asian-European Meeting (ASEM) in London in early April, it is believed that other Asian countries would follow Japan. At that point, the Clinton administration would have no choice but to back this option openly.

## Australia backs Indonesia against the IMF

*The political and security implications of the Indonesia crisis have forced a dramatic shift in Canberra's policy.*

**O**n March 18, Foreign Minister Alexander Downer and a team of senior officials from the Foreign Affairs, Treasury, and Ausaid (foreign aid) departments left Canberra for an unscheduled visit to Washington, D.C. In meetings with U.S. government officials, with International Monetary Fund Managing Director Michel Camdessus, and with World Bank President James Wolfensohn, the Downer mission planned to deliver one message: that the IMF must back off from the brutal conditionalities it has attached to its \$45 billion aid package to Indonesia, lest that nation of 200 million people, Australia's nearest neighbor, disintegrate.

The Downer mission caps a series of non-stop crisis meetings in Canberra during early March, involving the highest levels of government, particularly the defense and intelligence sectors. As reported in the *Australian Financial Review* on March 14, "Senior Australian officials now openly acknowledge the Indonesian crisis is the gravest foreign and security crisis to confront Australia for decades." These "open acknowledgments" began with Prime Minister John Howard himself, who told the Parliament on March 9, "I want to make clear that we believe that the IMF package must be implemented with care and sensitivity toward the impact of that package on social stability and social cohesion within Indonesia." Howard was soon echoed by Downer, by Reserve Bank of Australia Gov. Ian McFarlane, RBA Deputy Gov. Stephen Grenville, and former RBA Gov. Bernie Fraser. Fraser was particularly blunt: "The IMF needs to back off and

be less punitive."

Several Australian officials have all but charged that the IMF's goal is not to solve Indonesia's currency crisis, but to overthrow the Suharto government, with which Australia signed an unprecedented security and defense treaty in December 1995.

The recent Australian attacks on the IMF are all the more remarkable, given several things: 1) As late as January, Australia was in the forefront of those urging Indonesia to bow to the IMF's demands, as in Howard's Jan. 11 telephone call to President Suharto toward that end, followed by a personal visit to Suharto by former Prime Minister Paul Keating (who was close to Suharto); 2) Howard and five of his senior ministers are affiliated with the chief economic warfare unit of the British Crown, the Mont Pelerin Society, through their association with Mont Pelerin think-tanks; and 3) Australia is the launching pad for British investment (looting) in Asia, as announced by the Royal Institute of International Affairs in 1995, following a major research project, and as reinforced by a steady stream of British officials who have visited Australia since then, the latest of whom, British Trade Minister Lord Clinton-Davis, proclaimed on March 9, "We must see Australia and New Zealand as gateways into the new Asia, an Asia which will eventually recover from the malaise through which it is going at this present time."

But the global financial crisis has delivered a sort of "reality shock" to the Australian government. This shock has produced a split, for in-

stance, between the Treasury Department and the Reserve Bank of Australia. The RBA is arguing that the IMF must moderate its demands, while the Treasury is gung-ho for the IMF. Treasurer Peter Costello is one of the most fanatical of the Mont Pelerinites, and the senior Treasury bureaucrat, Ted Evans, is a former executive director of the IMF.

For its part, although the Reserve Bank was established in 1959 as a British-style central bank, to replace Australia's Commonwealth Bank, founded in 1911 explicitly on the model of Alexander Hamilton's First National Bank of the United States, the RBA's deep involvement in Southeast Asia is provoking its turn toward reality. The RBA set up many of the region's central banks, RBA officials frequently travel in the region and consult with their counterparts there, and RBA Deputy Governor Grenville is an admirer of Indonesia, and speaks the language fluently. Grenville has called for an emergency room-style approach to the Indonesian crisis, where the critical issues are handled first, and secondary matters, such as alleged "corruption," only once the crisis has passed. Or, as RBA Governor McFarlane told the American Australian Association in New York on March 11, "Our aim was not to capitalize on any of these countries' difficulties in order to bring about a political transformation." By contrast, Treasurer Costello told the Australian Parliament on March 12 that Australian assistance to Indonesia would be forthcoming "only when an IMF program is in place, and continues to be adhered to by the recipient country."

Australia has offered significant help to Indonesia, by way of a \$30 million food airlift to provide drought relief, announced on March 15, plus \$380 million insurance for Indonesia's wheat imports from Australia.

## Downhill from Tokyo to Maastricht

*The European Monetary Union will amplify the effects of the Asian financial and monetary crisis on Germany.*

Not only is resistance against the planned European Monetary Union (EMU) growing inside Germany, but there are also doubts among the elite, especially the economists, whether the project should be kept on schedule. The EMU is set to begin on Jan. 1, 1999, and the final review of the 15 European Union governments at EU headquarters in Brussels, which will decide how many of the 15 will be let into the club, will take place on May 2.

Officially, the government and the parliament are all for it, and want to stick to the timetable. But, in private talks, quite a few politicians are voicing hopes that if there is no way of postponing the EMU starting date, the criteria for participation should at least be watered down. This "inside resistance" current will gain momentum, after the expected decision in Brussels in favor of the EMU and the timetable.

There are others among Germany's elites, who say that the project should be stopped or renegotiated. But because so much political prestige has been invested in the EMU, the Germans prefer that others in Europe take the first step and tell the public that the monetary union "simply will not work." So, in a typically pragmatic way, the German critics of the plan hope that the French will make the first move.

France, however, missed its big chance after the elections in June 1997, when the new government of Prime Minister Lionel Jospin could have taken such a step. There were certain indications that it would act in this direction, but the government was pulled back into the EMU boat, before

ever really getting out of it. As of now, it seems certain that the French will vote for the EMU, which means that it will begin on schedule, with all its strict budget-balancing criteria and restrictions on state borrowings for economic stimulus programs. The EMU will make it even more difficult to fight mass unemployment, because it will leave all the initiative to the "free market," and block public sector undertakings in its member states, to create jobs and stabilize production.

This is bad news for Europe, and for Germany. The good news, is that the resistance against the EMU has finally begun to take notice of the Asian crisis, and to address its repercussions on the German economy.

This is the right approach for all strategies aimed at overturning the EMU at some future time—possibly during the transition period between the Brussels meeting and the formal start of the project. The Asian crisis is now generally not expected to cool down, and there are more and more commentaries in the media, that warn of a deepening depression in Japan and the rest of Asia.

A strong exporting nation like Germany will be hit hard by the contraction of the Asian economies: The "emerging markets" in Asia have, after all, been the main incentive for German exports on a global scale. The only part of Germany's market in Asia which has not been hit hard, is mainland China, because of its ambitious infrastructure investment and development program. In the rest of Asia, German exports are going downhill. The economic straitjacket of the EMU

is suicidal, and some people in Germany, who, for much too long, have had illusions about the nature of the EMU, have finally begun to recognize this. There is the potential for broadening the resistance against the EMU, via a public debate about Asia.

At a press conference in Bonn on March 11, the German Association for the Protection of Savings addressed the Asia crisis in a memorandum on the risks of the EMU. The memorandum warned that the drop in production and consumption in Germany that results from the crisis in Asia, will reduce tax income considerably in 1998 and future years. The government will not have the budget which it had projected. In connection with the budgeting rules of the EMU, the government will have to fill the holes through tax increases, which in turn will spark inflationary price increases, the savings association said. Moreover, a representative of the association told this author on March 17, that it could not be ruled out that German banks will not only have to write off bad loans to Asia, but are headed for serious trouble. This, on top of all the other EMU problems, would ruin the savings of millions of German citizens.

On March 12, in a press conference in Bonn, the German Taxpayers Association voiced similar concerns about the EMU. Leaders of the organization called for a freeze of the EMU timetable for at least three years, to gain time for a review of the entire project.

Both organizations are powerful, having institutional members such as banks, insurance firms, and professional organizations, as well as several hundred thousand individual members. This has to be taken into account, for the upcoming elections for national parliament. The government may vote the EMU in on May 2, but lose the elections on Sept. 27.

# Business Briefs

## Investment

### Russia-China 'energy bridge' has U.S. role

Arkady Volsky, head of the Russian Union of Manufacturers and Entrepreneurs, speaking at a February conference in San Francisco, said that he hopes for a substantial increase in business between the American West Coast and the Russian Far East. In particular, Itar-Tass reported, "Volsky said the Americans showed much interest in a project of an 'energy bridge' between Russia and China, which was presented to the conference."

During the conference where Volsky spoke, 19 regional economic projects in Russia were presented. It was one of a number of special conferences on cooperation between U.S. states and Russian regions, which is being promoted in the framework of the Gore-Chernomyrdin Commission on inter-governmental economic cooperation, which met in early March.

Volsky said that when the Boguchanskaya hydroelectric station comes on line, for example, Russian electricity sales to China could double, from 40 billion kilowatt-hours per year, to 90 billion kwh. According to Volsky, "Presentation of the energy bridge idea made a huge impression on conference participants, who expressed interest in financing the project."

## Biological Holocaust

### New transgenic virus found in Australia

A new, highly infectious virus which kills unborn piglets has infected two workers at a piggery in Camden, near Sydney, Australia, the daily *Age* reported on March 9. The pig virus, in the same family as measles and canine distemper, has reduced litter sizes in one-third of the sows, and there has been an increased number of stillborn piglets and birth defects showing brain and spinal cord abnormalities. There are fears that the virus, which has shown an ability to mutate, could

spread rapidly in the human population, and have the same effect on human fetuses.

So far, the virus has been isolated to the piggery, but scientists have found that a large proportion of a local colony of bats has tested positive for the virus. Fruit bats in Australia are known to harbor two other transgenic viruses (i.e., able to jump species from animals to human): the equine morbillivirus, which killed two people in Queensland; and the Lyssa virus, which produces rabies-like symptoms, which killed a woman in 1996.

"A lot of the influenza viruses start in birds and adapt in pigs before entering the human population, and this could happen in this virus," said Dr. Peter Kirkland, the principal research scientist at the Elizabeth MacArthur Agricultural Institute in Camden. Details on the virus are reportedly to be published in the monthly journal of the U.S. Centers for Disease Control in Atlanta, Georgia.

## Israel

### Economic problems spur push for infrastructure

The collapse of the Israeli economy is kindling a broad debate on the need for infrastructure development in Israel. For example, a commentary by Daniel Bloch in the March 8 *Jerusalem Post*, called for the development of railroads.

The economic policies of the Benjamin Netanyahu government, and the anti-inflation policies of Bank of Israel Governor Jacob Frenkel, are contributing to the crisis, Bloch writes. Although the Asia financial crisis has hurt the Israeli economy, the most important factor in the economic decline is the "stalemate in the peace process." He says, "The rapid increase in the economic growth in Israel really started after the Madrid Conference, and even more so since the signing of the Oslo Accords. . . . It will take time for the resumption of the peace process, or for major change in economic policies, to have beneficial results on the trends of growth, exports, and employment. Therefore we need a quicker solution: investment in infrastructure."

Bloch calls for restarting various rail projects, including inter-urban railway systems, and for building a rail network in the central part of Israel, and from Ashdod to Hadera. He also calls for the construction of a mass transport system in Tel Aviv. The project should start immediately, he says.

On March 9, the *Jerusalem Post* reported that a "tilting train" has arrived in Israel, on loan from the German Adtranz company, for trials on service from Tel Aviv to Jerusalem, and Tel Aviv to Beersheba. Such trains are able to travel on winding track without slowing down, which would cut travel time on the Tel Aviv-Jerusalem line from 115 minutes to 55 minutes. Azi Feuchtwanger, chairman of the board of directors of the Ports and Railways Authority, said that it is absurd that the nation's two largest cities have no proper rail link. The use of tilting trains, he said, would require an outlay of only \$100 million.

## Transportation

### Union Pacific may refuse orders to 'solve' crisis

Union Pacific railroad may begin refusing to take new freight shipment orders within 30 days, to help relieve delays and congestion on its 23-state rail system, the March 12 *Wall Street Journal* reported. The threat to stop taking new shipments was included in the weekly filing by Union Pacific with the Surface Transportation Board, the Federal oversight agency.

In September 1996, Union Pacific became the largest rail firm in the United States, when it acquired Southern Pacific in a \$3.4 billion merger. The disastrous condition of the rail system is the culmination of deregulation policies.

Industrial firms are upset. Dow Chemical Co.'s manager of rail services procurement said, "Rail traffic that is not moving well is still better than traffic that is not moving at all." A switch to trucking costs around five times more on bulk cargo, and many trucking companies have already run out of capacity and warehousing. Du Pont's transport procurement official said, "We have plants running 24 hours a day, seven days a

week, turning out products. We really don't have the ability to delay shipments without shutting down our operations."

Union Pacific has also mooted turning over more of its business to other rail lines, but there are no remaining competitors in most regions. Recently, the firm said it would issue up to \$1 billion in securities to deal with basic long-term infrastructure deficits, including criss-crossing tracks and outmoded terminals in the Houston hub.

## Russia

### Chernomyrdin: Asia crisis makes planning impossible

At a Feb. 26 press conference, the day Russian President Boris Yeltsin fired several ministers from his cabinet and demanded that the 1998 budget be both implementable and implemented, Russian Prime Minister Viktor Chernomyrdin said that it would be a lot easier to ensure performance "if I knew what were in store for us this year." Unfortunately, he said, this is problematic in the world of "new market relations." As an example, he said, "Look at the crisis in the world! I mean the Asian crisis in the financial markets. It hit those who never thought it would hit them. It hit Russia, but not as hard as the others." If it hadn't been for "tough measures" taken by Russia when the waves of selling started last year (namely, steep raising of interest rates), Chernomyrdin said, "we would have crashed, and many would have heard the crash."

Chernomyrdin insisted that he must deal in terms of "monetarism," a statement aimed at Moscow Mayor Yuri Luzhkov, a probable Presidential candidate who continues to campaign against the destructive "era of monetarism" that should now end. Russian government spending and revenue projections, and the budget, reflect an assumption that the worst is over.

In early March, the Russian State Duma (parliament) voted 252-129 in favor of the fourth and final reading of the nation's 1998 budget, a vote postponed from two weeks earlier, after International Monetary Fund conditions for the extension of its lending to

Russia forced the government to amend the document. One amendment would have prevented 27.9 billion rubles (\$4.6 billion) of recently added spending from being paid out, unless sufficient revenue were received to cover it; instead, the government will be allowed to cut spending, with three days' notice to the Duma, if it makes the cuts evenly across the board.

## Banking

### Foreign investment bailouts a 'moral hazard'

Daim Zainuddin, Economics Adviser to the Malaysian government, condemned the International Monetary Fund's (IMF) rescue packages to three Asian countries, as aid to foreign banks. The actions of both lenders and borrowers, he said, "cause misery to the whole population . . . hundreds of millions of people. All these years, foreign banks have benefitted. This is a moral hazard, isn't it? When it comes to local banks, the foreigners tell us, 'Don't bail out.'"

Daim told reporters that fund managers have been asking him when the turmoil will be over, and his response has been, "Let's be honest about it, it is actually very serious in Indonesia."

Daim said that bailouts to foreign bank creditors are ultimately paid for by the citizens of the nations concerned. "Why is it that everybody does not criticize when there is a bailout of a foreign bank? The lenders were reckless and careless, the borrowers were reckless and careless," Daim said. "At the end of the day, they know the IMF is going to bail them out, so they continue to lend, knowing at the end these are going to be bad loans."

In Thailand, for example, Bank of Thailand Economic Research Department Director Suchada Kirakul said that the IMF's third tranche of \$1.8 billion will go largely to pay forward swap obligations incurred by the Bank of Thailand last year in a failed attempt to defend the baht against the hedge funds, which are controlled by speculators like George Soros, *Business Day* reported on March 2.

'HOT MONEY terrorism' is a danger faced by all nations, if bloated stock exchange trading, estimated to be \$257 trillion in 1992, is not reined in, Ungsuh Park, adviser to the South Korean Samsung group of companies, warned early in March. Even the U.S. economy, worth \$7 trillion in 1992, cannot withstand the power wielded by this trade, he said.

MYANMAR'S currency, the kyat, despite controlled convertibility, has fallen against the dollar and against the Chinese yuan by more than 50%, the March 5 *Far Eastern Economic Review* reported. One result is that the number of trucks that cross the China-Myanmar border has fallen from 200 or so per day, to 30.

'SAUDI ARABIA, the largest OPEC producer at 8.7 million barrels, is in a war with Venezuela, which is pumping 43% above its quota," a European oil analyst told *EIR* on March 10. "Venezuela refused to cut 'one barrel,' and the emergency OPEC meet is off." Venezuela, is intent on recapturing its 1960s role as the primary supplier of oil to the United States, he said.

RUSSIA has reaffirmed its commitment to the Bushehr nuclear power station being built on Iran's Persian Gulf coast, the *Teheran Times* reported. The United States has tempted Ukraine away from supplying turbines for the project by offering a bilateral nuclear cooperation accord.

CHINA "should not underestimate the negative impact on our economy" of the Asian financial crisis, People's Bank of China Gov. Dai Xianglong said on March 7. Dai said that foreign direct investment would exceed \$30 billion this year, down from \$45 billion in 1997. China gets 80% of its foreign investment from Asian nations.

MINDANAO in the Philippines lost 194,000 agricultural jobs in 1997, to 885,000, the National Economic and Development Authority reports. Agriculture accounts for 55% of the region's employment.

## Toward a New Bretton Woods

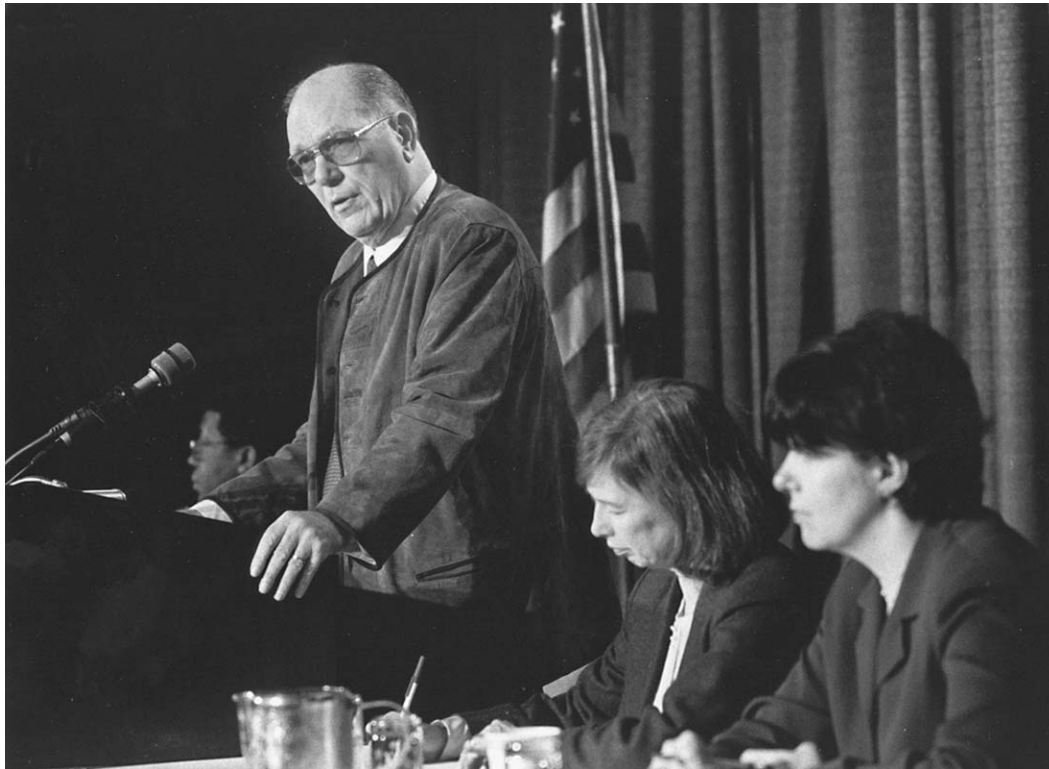
by Lyndon H. LaRouche, Jr.

*The following speech was delivered to an EIR seminar in Washington, D.C. on March 18, 1998.*

We are now past the Ides of March, the 15th of March. We have now entered into the onset of a new crisis which echoes, and is worse than, and will be worse than, anything experienced between the middle of October and the middle of January. At this time, what was called “the Asia crisis” by people who wished to put their heads under a barrel, which is really a global systemic financial and monetary crisis, will hit Europe with harsh force. We don’t know how harshly, but it will be harsh. And, it will hit the United States in a way which makes the stock market collapse of last year-end seem a very mild exercise, a rehearsal for what is about to occur.

For example, you have, in Germany, two processes going on. Germany is an export-oriented country. It can not exist, except with an export orientation, high-tech exports. Germany’s economy has two principal markets: one, the export markets into Asia, and, to some degree, the machine-tool industry in the United States, which is largely a subsidiary of German machine-tool manufacturing. You scrape a U.S. machine tool on the belly, and you will find “Made in Germany,” in some respects, there.

The second thing is the investment in global infrastructure. Now, Germany is hit, both by the fact that Southeast Asia and Asia are collapsing as markets, Germany’s most important customer, and, also, to some degree, France’s. At the same time, the insane attempt of Germany to meet the standard of the so-called Maastricht agreements, the so-called “Euro” agreements, is collapsing the internal economy of Germany at an accelerating rate, especially through the collapse of the infrastructure sector. That, in fact, Germany is in a situation, in which every cut in the budget made to bring the budget into Maastricht standards of balance, causes a collapse of the economy which shrinks the tax-revenue base by a larger degree than the cut in taxation. So, Germany is in the position of a snake trying to survive by eating its



*Lyndon LaRouche addresses EIR's seminar in Washington, D.C. on March 18. Seated, from left, are EIR editors Nancy Spannaus and Debra Hanania Freeman.*

tail: When the head gets to the head, that's the end.

The combination of this insanity of the Euro, and the panic in Asia, particularly in the new crisis, will hit all of Europe, since all of the European economy depends upon the German economy. Without a healthy German economy, there is no healthy economy in Europe. A collapse of the German economy, means a collapse of the economy of all Europe.

There are other crises. In Southeast Asia, look at metal consumption. The metals consumption in Southeast Asia, as a result of the last and ongoing crisis, is down by at least 30% from what it was before the crisis. In the case of Indonesia, the fourth-largest nation of the world in population, the collapse is down to about 50%. This means a collapse of markets. Nations which could export in Asia, are unable to export, even to markets to which they *could* export, because the local credit is not available to permit them to export, or to buy the resources they require to produce for export.

This means that a chain-reaction collapse of the world economy, coming out of East and Southeast Asia, is going to hit Europe very hard. When Europe is hit hard, already with the effects of the Asia crisis on the West Coast of the United States economy, you're going to find the collapse of the U.S. economy is going to take off in a way which no one, perhaps, on Capitol Hill is willing to acknowledge as a possibility.

This crisis has begun. We are now approaching the end of the first quarter of the calendar year. In Japan and elsewhere, there is a great scramble to cover their rear ends, financially, by fixing the books, as they have to fix the books

as the end of an accounting period approaches. This is going to cause a crisis. This can be the detonator for the crisis. In general, in Europe, in Switzerland and elsewhere, we have agreed for some period of time, that this period, the end of March, is the dangerous period at which we can expect the detonator to blow the system out again: this time a much more severe crisis than anything experienced back at the end of the year, a crisis whose reverberating effects on the world economy, particularly in Europe and the United States, will be much greater.

In the meantime, what is being done to manage the last crisis, is clinical insanity. By "clinical insanity," I refer you to the Versailles agreements, which a famous fellow, Keynes, described at the time in a paper called "The Economic Consequences of the Peace," which, considering that Keynes was a very bad economist, was a very prophetic piece of work. The most direct result of the Versailles agreements was the 1921-1923 hyperinflationary crisis in Weimar Germany, a crisis which could have caused a chain reaction, blowing out the entire world economy at that time. The reason that Germany did not blow up altogether, was that the United States, which was then the world's principal creditor nation, stepped in with what was called the Dawes Plan, which we created by credit agreements. Germany held its breath for a while, until the reserves came in. The crisis abated somewhat, and then the United States bailed out the Reichsmark, and Germany was able to continue.

But notably, politically, at the same time that the Weimar

hyperinflationary crisis reached its peak in the autumn of 1923, we had the first appearance, under the sponsorship of General Ludendorff, of Adolf Hitler, as a new political figure on the European scene.

### **The IMF, arbiter of a new Versailles**

Today, what is happening in Japan, and in the New York Federal Reserve System, is a piece of insanity, precisely like that against which Keynes warned in the Versailles Treaty. We are back to Versailles. The arbiter of the new Versailles, is a group of lunatics called the IMF bureaucracy. Here we have countries which are in trouble, where their economies are collapsing. The IMF comes in and says, "What you must do, is pay these creditors by shutting down your economy." That was what they said in Korea, that is what they said in Indonesia, that is what they said in Malaysia, that is what they said in the Philippines, that is what they said in Thailand.

That is what they said in Korea. Korean unemployment is past the 1 million level, which is already potentially a social crisis level. Under these conditions, *none of these economies can ever recover*. None. *This is clinical insanity*. You can not find any basis, and I shall indicate today some of the reasons for this—you can not find any basis under which financial reorganization of the type proposed by the IMF and accepted by most nations, can succeed. These kinds of proposals are simply the insanity of Versailles, re-enacted many times over.

And in the United States, we're pumping up a balloon, in terms of the financial markets, through what? Through hyperinflationary methods. The printing of money, to steer it into financial markets, where it is heavily financially leveraged, and thus results in an ascending balloon, in terms of the stock market prices, which creates the spectacle of a man clinging to a balloon without a carriage, and without an oxygen flask, reaching the 60,000-foot level and going higher. He's going to suffocate and die, if the balloon doesn't explode. And that's what we're doing.

*There is no recovery in the United States. There never was a recovery from the levels of the crisis of last year.* But, many people wishfully wish to believe that. Many people in the Congress, many illiterates in the Congress—which is what we seem to be tending toward among the younger generation there these days, people who no longer have, a Congress that no longer has institutional memory, because the people who got into the Congress as young people, *never studied history*. Most of them who got into the Congress, they'd never had a passport before they got into the Congress. They don't know the outside world exists. They don't know the United States existed before they were born. They're not even sure they were born, and they don't want to discuss it. You ask 'em, "Were you born?" and they say, "Don't go there."

So, that's the crisis. Under these conditions, as I shall refer to this matter in a number of points here, under these conditions, there is no government in the world, presently, while some of them have good ideas in particular, there is no

government in the world which has a plan of action, a policy under which that nation, or the world community, could survive.

We are now going into this new crisis, which will occur this spring. Whether this will be the crisis that blows the system out entirely or not, we don't know. There are too many unknowns in the short term, in a crisis like this, to predict exact dates. But, *we are in the spectrum of a succession of crises, in which one of these crises, probably in 1998, will blow out the entire system, unless we fundamentally, radically change the rules of the game, from the bottom up, of the whole system, in the meantime.*

The meetings which are to be held here in Washington, during mid-April, and a few other conferences scheduled in the same period, must be treated by any serious statesman as *probably the last opportunity, to prevent this planet entirely from collapsing into a New Dark Age like that which struck Europe during the middle of the Fourteenth Century*, after a century or almost 100 years of moral and cultural and economic decline of Europe, since the death of Friedrich II Hohenstaufen, until the bankruptcy of the House of Bardi and Peruzzi, in which Europe was struck by a New Dark Age, during which 30%, at least, of the population of Europe was exterminated by the economic crisis and disease; in which, over the 100 years since Frederick II, 50% of the parishes of Europe disappeared, as a result of these measures; in which

## **Renew call to Clinton for Bretton Woods conference**

*At the March 18 EIR seminar, Schiller Institute Chairman Helga Zepp-LaRouche and Ukrainian Member of Parliament Natalya Vitrenko renewed their call to President Clinton to convoke a conference that would establish a New Bretton Woods System, which they initiated in February 1997. The title of their new statement is: "Renewed Urgent Appeal to President Clinton to Convoke a Conference for a New Bretton Woods System."*

Almost exactly a year ago, we appealed to you, in view of the danger of a pressing systemic crisis, to initiate a reorganization of the world monetary and financial system, and to orient yourself toward the better elements of the previous Bretton Woods System.

In the meantime, this call has been signed by approximately 500 parliamentarians from 40 countries, the former Presidents of Mexico, Brazil, and Uganda—José López Portillo, João Baptista Figueiredo, and Godfrey Binaisa—and hundreds of civil rights leaders, trade unionists, and



insanity roved the streets, as it tends to rove the streets of the United States today; out of which we survived, because we got a Renaissance in the following century.

*We are now headed toward such a New Dark Age, coming out of the collapse of this banking system, just as Europe was plunged into a New Dark Age, by the detonator effect of the collapse of the Lombard banking system in the middle of the Fourteenth Century.* That's what we face. And there seems to be, at this moment, not a government on this planet, which has mustered the competence and will, to address the severity of the nature of this situation, with competent proposals.

Now, in reviewing this situation — and I shall limit myself for the presentation to the summary features of the problem — I shall make use of something which will appear, not in this week's issue of *EIR*, but in the next one. We've received, sometime past, a paper from an acquaintance of mine, you might say a friend of mine, a Dr. Sergei Glazyev, who is a brilliant young Russian economist, a man who reflects, if not entirely incorporates, the thinking of the leading circle of the scientific circle of economic thinkers in Russia. His teacher was Academician Dmitri Lvov, of the Central Economic Mathematical Institute. I know his acquaintances, his background: He does reflect the thinking of this layer. He's probably one of the most competent exponents, in terms of a young exponent who covers the spectrum.

So, we're publishing his paper, on the new measures pro-

posed to take a Russia on the brink of doom: those measures which would revive the Russian economy. And so, I've published a commentary to that, a prefatory commentary, on the implications of Dr. Glazyev's paper, which will be published in next week's *EIR*.<sup>1</sup> And, since the introduction to that contains the same material which is relevant here, I shall quote myself, so to speak, in part, from the beginning of that commentary, as follows:

### Three leading topics

"The world is waiting for the outcome of the 22-nation, Washington (Willard Group) conference on international and financial and monetary matters, now scheduled for April 16. All rational participants in the preparation and conduct of that conference should agree, that there are three leading topics of interrelated financial, monetary, and economic policy-shaping, topics which must be considered as crucial for a true solution to that global, systemic crisis, the which has pushed the world to the present brink of a threatened, sudden plunge into a global New Dark Age.

"First, the fact that the present crisis is *global and systemic*, rather than *regional* or *cyclical*, must be acknowledged. This acknowledgment is the required premise for any rational

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1. In this issue, pp. 53-63.

members of other social organizations, all of whom are motivated by deep concern over the fate of their nations.

At that time, we warned about the outbreak of an impending severe financial crisis, which would erupt in East Asia, but soon will extend to the whole world. The Asia crisis which broke out in October 1997, which is really only the regional expression of the global crisis, has shown how correct the warning expressed in the appeal a year ago was: The International financial system has been poised at the brink of meltdown repeatedly since the end of 1997, for example, on Dec. 22-23, 1997 in South Korea, and again, in January 1998, in Indonesia and Japan. In the meantime, it has been confirmed that neither the medicine of the "IMF rescue packages" nor the hyperinflationary infusions of liquidity are solving the problem, but, to the contrary, only reinforce the distortions of the "bubble economy."

The conference of 22 nations, which the United States has called for in Washington on April 16, is perhaps the last chance to carry out the necessary reorganizations safely, before the next expected, even more disastrous round of financial crisis. As useful as the elements of the discussed corrections (fixed exchange rates, greater transparency of financial transactions, a tax on speculation) might be, the

crisis of civilization in which the world finds itself, cannot be eliminated with cosmetic measures alone.

If the conference for a new Bretton Woods is going to be successful, then the fundamental mistakes in economic and financial policy of the past 30 years must be corrected, mistakes under which worldwide industrial and agricultural capacities have been allowed to collapse far below the level necessary to sufficiently provide for all the people living in the world today. Only if the world economy is organized along the principles of physical economy represented by Lyndon LaRouche — that is, if the construction of the Eurasian Land-Bridge becomes the cornerstone of a global reconstruction program, and thus scientific and technological progress again becomes the chief economic engine — can the real causes of the crisis be eliminated. It is urgently necessary to step up physical production, and to expand and modernize the productive infrastructure of all nations.

The only alternative to worldwide chaos is the immediate realization of a just, new world economic order. We appeal anew to you, President Clinton, to throw the constitutional authority of your office and the anti-colonial tradition of America into the balance, to avert unimaginable harm for billions of people.

discussion of policy to follow. Within those bounds, those recent decades' institutionalized changes in policy, which are responsible for a three-decades build-up of the present crisis, especially since August 1971, must be identified, and entirely removed."

That is, the policy changes, the relevant policies made since approximately 1966-1967, in the policies of the U.S. government and the British government, the policies which came expressed by the 1967 collapse of the British pound sterling, the ensuing disorders in the dollar, the first step of collapse of the Bretton Woods System in March 1968, and then the collapse of the whole Bretton Woods System in August, mid-August 1971, that the changes which have come in that process and out of that process, are the cause of what is today a *global systemic crisis*. It is not a cyclical crisis, it is not a business cycle crisis, nor is it regional. It is global. The entire system has destroyed itself, and the unravelling, which has taken over three decades, has now brought us to the end point, to the boundary conditions of extreme turbulence, as many boundary layers tend to be, in which we either *eliminate* those policy changes which were popularized and institutionalized during the past three decades, *or this world is not going to make it, in its present form*.

Nothing less than radical excision of those institutionalized practices which are now generally accepted, will suffice to halt this crisis.

Second, the present fatally ill global financial and monetary system, must be radically reorganized. It can not be reformed, it must be reorganized. This must be done through the concerted actions of a key initiating group of governments. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority not of international institutions, but of *sovereign governments*. The acceptable model for the reorganized international monetary and financial system, is the incontestably superior successful functioning of the old Bretton Woods System of the pre-1958-1959 1950s, over anything existing since those axiomatic changes in direction of policy-shaping which were introduced by the United Kingdom and the United States, during the period 1966-1972.

The required measures include:

- a) periodically fixed exchange values of national currencies;
- b) limited convertibilities, as may be required;
- c) exchange controls and capital controls;
- d) fostering of necessary protectionist measures in tariffs and trade regulations; and
- e) outlawing of the creation of markets which conduct financial speculation against targetted currencies.

Third, as measured in physical instead of the usual monetary terms, the world's economy is presently functioning at levels of *negative free energy*, which are presently far below a breakeven point. The current levels of net physical output *are insufficient* to prevent the existing populations and econo-

mies from continuing to collapse into a spiral of accelerating general physical-economic contraction, and ultimate physical collapse.

Unless this shortfall in per-capita physical output is reversed and soon eliminated, no financial and monetary system, however otherwise sound in design, could function. No mere medication could save a man who is being starved to death. There is no financial and monetary system which could possibly succeed, unless it were accompanied by a general program of forced-draft physical-economic recovery, a program which must rapidly approach and reach the levels of sustainable, positive free-energy ratios. This means a recovery analogous in important respects to the Franklin Delano Roosevelt recovery in the United States, and on a global scale.

### **Franklin Roosevelt returned to the American System**

Remember, in March 1933, in the First Inaugural Address of President Roosevelt, he announced the fact that the United States and the world were in a crisis, a deep, severe crisis, and that he was prepared to take drastic measures to address the issues of this crisis. He said that if the Congress would not act, that *he, as President, would act, in order to save the United States, and rescue it from this crisis*. And he did that.

Now, he didn't do it blindly. Roosevelt, as I'll refer to this again later, Roosevelt announced his general direction of thinking, in a paper published in 1928, in *Foreign Affairs*, the journal of the New York Council on Foreign Relations, in which he announced, in diplomatic terms, in a sense, a complete break with the idiotic and criminal policies of his predecessors, Theodore Roosevelt and Woodrow Wilson, toward the nations of Ibero-America, and other nations, but focussed on Ibero-America: that we must not become a debt collector. We must show a decent respect for the opinion of mankind, the common opinion of mankind. We must *help* nations.

We must not allow the sharks of Wall Street, who didn't like Roosevelt too much, just as the *Wall Street Journal* doesn't like me, or doesn't like Clinton today; we must not allow these people to continue the kinds of policies which were enforced in this country, and forced upon this country under evil Presidents, such as Theodore Roosevelt, and, in 1915, the re-founder of the Ku Klux Klan, directly from the White House, Woodrow Wilson, who was responsible, as President, for launching the second incarnation of the Ku Klux Klan in the United States, which reached the level of over 5% of the U.S. adult population during the 1920s. And Woodrow Wilson was the ideologue from the White House who did that. The man was no good.

We had a President during the 1920s, Calvin Coolidge, who was no better. Worst of all, we had a Secretary of the Treasury, Andrew Mellon, who was worse. Hoover didn't cause the Depression: Andrew Mellon and Coolidge did, helped by Woodrow Wilson.

So, Franklin Roosevelt rejected this degeneration of our

policy, and returned to the American System, as expressed, typically, by what Lincoln and Henry Carey, the leading economist of the mid-Nineteenth Century, did between 1861 and 1876, as reflected in the 1876 Centennial Exposition at Philadelphia, at which point, during the period 1861 to 1876, the United States had become the world's most powerful economy, and the economy which was technologically the most advanced in the world.

### The only successful economic model

This model, on the basis of the 1876 exposition, was the basis for the industrialization of Japan, which used the American model to build an economy in the Japan system. This was copied immediately by our friends in Germany, typified by Siemens, and by Emil Rathenau, whose son was Walther Rathenau. They copied the American System, as identified by the 1861-1876 revolution in economy launched by Lincoln, on the advice of Henry C. Carey.

This model was also used by Russia, which was our ally against Britain and the Confederacy during the time of the Civil War: Russia as represented by Tsar Alexander II, as represented by the great chemist Dmitri Mendeleev, who was at the 1876 Exposition, and who became the great railroad

builder of Russia, and the great industrializer of Russia, and carried the American System, as far as he could get by with it, into Russia, successfully under Alexander II, not so successfully under his successors.

The same policy, the American System policy of Mendeleev, was also the policy of Count Sergei Witte, the Foreign Minister, Finance Minister, and, also, Prime Minister, briefly, of Russia, who was a specialist in the writings of an American System economist of German extraction, Friedrich List.

*Every successful model of national economy* which emerged in the late Nineteenth Century and the Twentieth Century on this planet, was based on the model of the American System, not merely of Hamilton and Franklin, or John Quincy Adams, but on the specific form of that model developed by Abraham Lincoln and Henry Carey during the period between 1861 and 1876. That is the American System.

That is the legacy, economic policy legacy, of the United States, a continuation of the legacy of Franklin, a continuation of the legacy of the Washington-Hamilton administration. This is what distinguished the United States, which made it great. We were the only nation on this planet, which constitutionally actually believed that *every man and woman is made in the image of the Creator*, and that the responsibility of

## A greeting from Mexico

*The message excerpted here was sent to the EIR seminar in Washington by Julio Zamora Batiz of Mexico, a former congressman, former ambassador, and former president of the League of Revolutionary Economists, of the ruling Revolutionary Institutional Party (PRI).*

Twenty years ago, in debating in the Chamber of Deputies the first letter of intent which Mexico signed with the IMF, I pointed out that the prescriptions of that body had never resolved a country's problems. The crises which we have suffered since then, those that the world faces today, confirm that monetarism is not the right policy for the world economy to grow and respond to the needs of the population.

Globalization inevitably generates serious social conflict inside every country. . . .

Workers are exploited by being paid a lower real wage for higher productivity; rural producers are subjected to inequitable market conditions; long-traditional social benefits which millions of people still require, are suppressed for financial reasons; thousands of small and medium-size businesses are sacrificed on the altar of efficiency; deregulation

and privatization are carried out to benefit the powerful. As a consequence of all these socio-economic sins, income distribution worsens: the rich are vulgarly so; the poor are so to the point of hunger. . . .

All over the world, IMF prescriptions have led to closing of businesses, loss of jobs, reduction of physical production, inflation, smaller real wages, increases in the foreign debt and inequitable income distribution. Governments lack the resources to carry out infrastructure projects which are essential for the economy to produce.

In reality, the IMF works to benefit international speculators, multinational companies, and local big business interests. The conditions of the people, their future, have no importance in a system which has exhausted its possibilities.

It is, thus, essential that international economic relations be restructured, that the international bodies which influence decisions be reconceived, that a plan be devised in which the goal is to achieve the well-being of human beings, and not the profit of capitalists.

The meeting of 22 nations called by President Clinton for April, must be oriented in that direction. I am sure that the views which come out of the *EIR* seminar, and the ideas of Lyndon LaRouche—which are original, and generate new concepts and new approaches—will be a fundamental part of the debate over the new economic international order which the world requires.

society is a *commitment to every man and woman, and to every child, to provide those conditions and opportunities, which are consistent with the dignity of a personality born as made in the image of the Creator.*

The only nation on this planet which adopted that as a constitutional principle of government, self-government, the American System of political-economy, was based on that principle. It was an effort to find a mode of economic life, as well as of political life, which was decent, from the standpoint of this obligation: to recognize the sacredness of the individual life, not merely as some kind of animal, but as a creature endowed with the creative power to make and to utilize fundamental discoveries of principle, of physical principle, and also to use, in a similar way, the fundamental discoveries of artistic principle, and the lessons of history.

*This was our unique genius*, at least among the best of us. And, this model of economy by that great President, Lincoln, who understood and enforced that constitutional principle, was what made us great. And, every nation whose people aspire to have the kinds of benefits which they saw in us, tried to copy that model, or at least assimilate its lessons into their particular institutions, as the President of China says that his

reform is with “Chinese characteristics,” but that China is perfectly happy to accept anything good it can use from the United States.

### **Those who lack the will to act, get out of the way**

So, we’ve come to a time where we need a new Roosevelt. I’ll come back to this again. That kind of decision, not the kind of shilly-shallying decisions we get from politicians today.

To what I’ve said, there’s an obvious objection to be expected from most critics. The customary objection will be, that such a sudden and radical approach is “politically impossible.” Perhaps those critics are right. Perhaps it will prove impossible politically to find a significant number of governments willing to push through such radical measures in a short-term period. *If* those critics are right on that point, *then civilization will not live out the present century in its present form.* *If* those critics are right, then the first generations of the coming century, will experience a planet-wide New Dark Age, a catastrophe on a global scale like that which Europe experienced during the middle of the Fourteenth Century.

I would therefore respond to such critics, with the follow-

## **International press: Listen to LaRouche!**

*From a column by José Neme Salum, in the Mexico City daily Excelsior, March 16:*

Mexico’s Congress should send a commission to Washington, to hear Lyndon LaRouche speak on March 18, writes Neme Salum in his weekly financial column. He also reports George Soros’s call for a return of open British imperial rule (reported elsewhere in this issue), as against those who are discussing the creation of a New Bretton Woods system.

“It is in this context,” he writes, “that the necessity becomes clear, that instead of spending thousands of dollars on useless trips by Congressmen — such as that taken by Muñoz Ledo or the one planned for the 17th for an OECD event — the Mexican Congress name a commission for the purpose of attending the seminar which *EIR* will hold in Washington, D.C. on March 18, with U.S. economist Lyndon H. LaRouche. He will explain to attendees, whether these be diplomats or semi-diplomats of various governments, ‘exactly what must be done so that when the meeting of the 22 nations occurs in April,’ ” there exists at least some sort of quorum ready to take the actions required.

*From a commentary by Juan Liscano, in the Venezuelan daily El Nacional, March 17:*

Liscano, a member of Fundapatria, a nationalist group formed to stop the privatization of Venezuela’s state oil company, Petroleos de Venezuela, poses the basic conflict in the world today as between those of Lord William Rees-Mogg’s outlook, and those of Lyndon LaRouche’s outlook.

Communism fell because of materialism, which is also crushing the capitalism of today, writes Liscano. Soon, this capitalism will “suffer the market crash which many foresee,” and which drives the campaign against the oligarchical New Order being waged by Lyndon LaRouche, “a U.S. Democrat of the Roosevelt era.”

*EIR*’s headlines speak for themselves, he writes: “The IMF Is the Cause, Not the Cure of the Financial Crisis,” “To Save Nations, Bankrupt the Speculators,” “The Great Fraud Which London Calls Privatization.”

“For years now, LaRouche awakens the American conscience with his just campaign,” as London and Wall Street’s drive for globalization wipes out national sovereignty, and reduces human labor to robot status, under Lord Rees-Mogg’s philosophy that 5% shall rule over 95% of mankind. “The alternative will be a reverse march, and a revision of the policies of the New Order, as demanded by LaRouche and his people, as desired by the many, although dispersed, declared opponents of the current direction of world affairs.”

ing impassioned recommendation. I say to these critics, as President Franklin Roosevelt forewarned the Congress, during his First Inaugural: *Let those political leaders who lack the will to carry out the measures I have proposed, get out of the way, and pass the authority to act to those among us who are willing and able to enact these measures, and do so suddenly.*

The immediate future of this civilization, if it is to have an immediate future, lies in the hands of those who are willing to act with pungency and force, along the lines I've indicated. That said, let us be optimists. Let us push the voices of those useless critics out of our minds, and concentrate on the actions which must be taken to avert the catastrophic economic collapse which now threatens to crush us all in the very near future.

There's an example of this in the case of the famous German strategist, von Schlieffen, Graf Alfred von Schlieffen, who was, until 1905, the Chief of Staff of the German military. In 1891, it was apparent to von Schlieffen that the efforts of the British to prevent the realization of what we might call the Land-Bridge program, that is, the extension of railway links across Eurasia, both to the Indian Ocean and to the Pacific, that the British determination was to crush Germany, and that Germany must expect that France would capitulate to Britain on this issue, and become a revanchist ally of Britain against Germany, and that Britain and France together, would mobilize Russia, through its pan-Slavic influences in its military and elsewhere, to become an ally of France and Britain, against Germany. They also took into account that Belgium would be a puppet of the British in conducting such a war.

Therefore, beginning 1891, von Schlieffen conducted a series of exercises among his staff, studies which were to plan the reaction of Germany, should such an attack, a simultaneous attack by France, and Britain, and Russia, occur. This became known, in due course, as the Schlieffen Plan.

Had the Schlieffen Plan been executed when the British, French, and Russians did launch war against Germany, for geopolitical reasons, then France would have, and the British Expeditionary Force, would have been crushed in the opening weeks of the conflict, by the hammer of the right flanking movement from the north.

However, von Schlieffen left office at the end of 1905, and was replaced by young Helmuth von Moltke, a man of weaker disposition, working for a timorous, weak-minded Kaiser. Remember, the Kaiser was a descendant of Queen Victoria. And Queen Victoria was like a cow who produces cows with weak feet; only in this case, the cows had weak minds. And, the Kaiser was one of these cases, as also was the Tsar of Russia, Nicholas. Their uncle, their common uncle, Uncle Albert, later called King Edward VII, played these two weak-minded relatives of his, like fools, and set them to destroying each other. Russia and Germany were both destroyed, and the kaisers of both countries were destroyed, by British manipulations organized by Edward VII.

The difference between von Schlieffen and von Moltke, under the influence of a weak-minded Kaiser, and other weak-minded types, was that von Schlieffen understood, as did Hannibal at Cannae, as did Alexander the Great outside Arbela, as other great commanders like Sherman, William T. Sherman, one of the greatest commanders in military history, understood, that *to win war, you must take risks. Those who try to minimize risk, lose wars.* The difference was that Schlieffen's plan concentrated Germany's limited resources on those points at which a decisive victory could be obtained. And, this was not an impulsive action, it was a thoroughly worked-out action. Whereas von Moltke took the Schlieffen Plan, and diluted it to cover all possible options, to minimize all risks.

Now, the weakness of the President, is exactly that kind of problem. The President is following in the pathway of doom, that of younger von Moltke, of trying to minimize his political risks, which will maximize the certainty of his defeat. Whereas, a leader is precisely a person—otherwise, we don't need leaders—who is able and willing to take the moral responsibility of risk. Not to take a reckless risk, but to take a risk *to win*, to turn the devil away. Whereas those who temporize, who try to be all things to all people, who try to find a consensus among the generals—

Let's take the case of Lazare Carnot, another great commander. In the early 1790s, France was invaded by armies of every other power in Europe. These armies were victorious on all fronts. The defeat and dismemberment of France were inevitable. At that point, the Jacobins appointed a man who was a great military scientist, as well as a physical scientist, Lazare Carnot, the man who invented the Machine-Tool Principle, among other things. They appointed Carnot to command the reorganization of the French army, and to direct it. Sort of like a Minister of Defense.

The thing he did: He fired major-generals in lots, in wholesale lots, and replaced them, in many cases, with sergeants, because one wouldn't go across the river at night, but would wait till morning; or keep the troops in the barracks, rather than moving them out into the field; would not make the assault when ordered; would temporize.

But, that wasn't the only thing he did. He also took a bigger risk. In two years, in his command of defense, together with his friends, such as his former teacher, Gaspard Monge, who later founded the Ecole Polytechnique, the genius, the scientific genius of France, such as survived, was mobilized to create a machine-tool industry around Paris and other locations, but chiefly Paris. And, in two years, Carnot revolutionized warfare, and turned certain defeat into absolute victory. Until Napoleon ruined the French instrument, there was no force in Europe which could defeat the French military system created by Lazare Carnot.

Every case in history, military history or political history, of a great crisis, requires leadership which will take risk. Not foolish risk, but necessary risk. And take precisely that risk

which is necessary to avoid a crushing catastrophe. Weak, incompetent leadership is that which will temporize, and say, “No, we can’t do that. We have to think about *this* first, we have to think about this group in the Congress, we have to think about this, our ally in Britain. We have to think about this, we have to think about that.” And such leadership, is the leadership of a nation which has doomed itself by such leadership. Leadership is not an unimportant thing. There’s a whole theory involved in that, the science of this.

### Post-industrial changes in axioms

Therefore, all rational discussion of these matters depends upon a clear understanding of the following point: The essential moral responsibility of the participants in these forthcoming and related proceedings, is their obligation to recognize that the mere fact that this is a global systemic crisis, rather than either a regional one, or merely a global cyclical crisis, is sufficient proof-of-principle evidence, that the causes for this crisis are the fundamental errors of judgment and practice embedded in those axiomatic changes in official and other thinking, about the subjects of economics, finance, and monetary policy, which have dominated international policy-shaping during, approximately, 30 years to date. These are those axiomatic changes, first introduced during the period 1966-1972, in the so-called cultural paradigm shift, which hit the so-called Vietnam Baby-Boomer generation. And, those changes in policy, away from a commitment to investment in scientific and technological progress, away from a commitment to infrastructure development, away from a commitment to exploration of outer space—we got to the Moon, and then we stopped. We haven’t been back there since. And the payoff, remember, the payoff on the aerospace project, the Kennedy acceleration of the aerospace project, the Kennedy crash program, was that we got back over 15¢ for every penny the government put into space exploration. At least 15¢, in terms of improvements in technology, in new designs, in new industries, in greater productivity, in a higher standard of living.

Under the influence, or the combined influence of the military forced draft technological driver of the postwar period, and the combined impact of the far superior measure of the Kennedy space program, this country reached the highest rate of growth in its history, since at least 1861-1876. And, along came the Baby Boomers on campus, and said, “*Shut it down!* Don’t invest in technology! Stop wasting money on infrastructure! Take the money back from the Moon, and bring it here!” It never got here, as many people can tell you.

Then we set a policy. Instead of basing an economy on performance, on what you produced, on those kinds of considerations, we based it on psychotherapy group discussions: “Well, how do you *feel*, Mrs. Jones?” We went into a touchy-feely psychotherapy mode, a politically correct mode. No longer was telling the truth important: It was *how somebody felt about what you said*, not what was the truth. We were no

longer concerned about justice; you were concerned about somebody looking at you cross-eyed.

We stopped being a people, and we became a slime mold. No longer were we a unified people, in which all people are equal. No; you have to be unequal. You have to have—if you’ve got an emotional problem, you need a support group. What’s your support group? We divided ourselves into a zoo, a collection of species called a Rainbow Coalition. No longer were people equal, no longer did people have equal rights to education, equal rights to medical care, equal rights to opportunity, equal rights to opinion, equal rights to truth, equal rights to justice. All that passed. Everything became a zoo. You feed this animal in this cage one thing, this animal in this cage another thing. Technological progress is bad for your health. Zero economic growth is good.

And, under the increasing impact of that kind of thinking, as it moved into political and other institutions of government, and society generally, every policy that was made, was shaped and adapted to fit these new criteria.

### Reality is asserting itself

This, now, is coming to an end. This began to come conspicuously to an end in the last year-end process. We saw a turn internationally—we saw it in Southeast Asia, for example. There’s a cultural paradigm shift now occurring in Southeast Asia, which was first led by the Prime Minister of Malaysia, Mahathir Bin Mohamad, which is now expressed in the movement around Habibie in Indonesia, which is expressed by the King of Thailand, as well as other Thai officials. “This garbage doesn’t work,” they say. “The IMF doesn’t work. This is a swindle, this is wrong. All these things which are politically correct, are wrong. They are destroying us. We want reality.”

You have, in the United States itself, the issue of HMOs. You have not only Democrats, but Republicans who are running for office, for election in November of this year, on the basis of being against HMOs, to bring them back under regulation, to end the free-trade system in medical care.

The issues of the American people today are becoming, more and more, bread on the table, meat on the table, conditions of life, safety in the school, a real education, not having a support group in place of a teacher. Less Ritalin and more knowledge. Those are the real issues, where people are rejecting, in the collapse of this self-discredited system, this self-discredited culture of the past 30 years, people are saying, “I would rather *live*, than be politically correct. I would rather have my children eat, than be politically correct. I would rather have my children not stupid, than politically correct.” Reality is asserting itself.

However, unfortunately, the people who went through the institutions, out of universities from the 1966-1972 interval, are now occupying the top positions in government, in business, in the media, in the professions. And thus, you have a sort of a psychological interest group occupying the top

positions of power, along with Generation Xers, who don't know anything, because they never studied history. They weren't allowed to! They never got it in the school system. We destroyed the history instruction. People passed tests, because the questions were more stupid. We have a sliding scale, the bell curve, which runs the testing section, and everybody's doing better on the bell curve. If everybody becomes more stupid, everybody does better. If you have a few intelligent people, you've killed the bell curve, and then people seem more stupid.

So, if everybody is stupid, then you can produce statistics based on test scores which show there's an improvement in education. You put five intelligent people into a classroom with the typical stupid people, and suddenly, you shift the bell curve, and they begin to flunk. So the absence of intelligent people coming out of the school system, results in test scores which show an improvement, when they're actually becoming more stupid. It's a swindle.

So, you have an entrenched interest in trying to defend the illusion of the Golden Generation, which is not "golden" at all. That stuff on the top there, on the head, was not gold, that was clay. We talk about giants with feet of clay; then, we've got the other types, giants with heads of clay.

### Return to performance standards

So, this is the problem that we have to face. You have to go back to performance. The question is not what is politically correct. The question is: What is necessary, so that people can survive, so that nations can survive? Who cares about the IMF? Indonesia represents the fourth-largest nation on the earth, in terms of population. You want to kill it? *Who cares what the IMF thinks?* Those bunch of guys, they can flip hamburgers for a living, if they have to. (I wouldn't trust them at it, but I'd let them do it.)

What about the whole of Asia? Asia is what? East Asia, Southeast Asia, South Asia: What's that? That's the majority of the human race! The archipelago, South Asia, China: That's the majority of the human race. And, what are we doing to the majority of the human race by these IMF conditionalities, and this Soros nonsense, and these things we are allowing? *We are murdering them, just as much as Hitler murdered people in slave-labor camps.*

We are turning entire nations into slave-labor camps. We are destroying the standard of living. We are increasing the morbidity.

Look at the collapse, in terms of life expectancy, in Russia, under the reforms. Life expectancy has collapsed, by more than 15 years. The sickness rate, the death rate: We are getting an epidemic of new kinds of diseases, and old ones, spreading around the world. Don't talk about chemical warfare, biological warfare; we're already running biological warfare: it's called the IMF. IMF conditionalities will kill more people than any chemist in a biological warfare laboratory, simply by taking people out of food, out of sanitation, and the other

things which are necessary for an enhanced life expectancy. And, the education which enables them to function more sanely.

The discussion, therefore, in these conferences, must contrast the generally downward trends of the 1966-1997 period, with the upward trends which were predominant during the great postwar recovery of 1946-1966. In face of that evidence, the notion that the present international system of free trade, floating exchange rates, and globalization, should be saved by a few added reforms, must be regarded as a wishful delusion, common to those who are not yet prepared to face the reality which already grips this planet.

Those present financial and monetary policies, of a floating exchange rate system, are not institutions to be rescued. They are the *disease* to be expunged. *Unless these policies are radically excised, the present economies and nations, will not outlive the passing of this present century.*

Now, in the current [March 20] issue of *EIR*, we have a reference to two tracks of policy. One track is Franklin Roosevelt's policy, the policy under which the U.S. recovery and the postwar plans of Roosevelt were based. The second one, is a paper written by a Dr. Wilhelm Lautenbach, presented at a secret conference in Germany of the Friedrich List Society in 1931. And Lautenbach said a number of things in that paper, which should be read by everyone in Washington

## If You Thought Adam Smith Is The Founding Father of America's Economic Strength—

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### *Friedrich List: Outlines of American Political Economy*

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an Epilogue by Lyndon H. LaRouche, Jr.

"I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition."

—Friedrich List to Charles J. Ingersoll,  
July 10, 1827

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today; if they don't read it, you should kick them out of office, because they're not to be turned loose under these circumstances. They're like firebugs: You don't want 'em in the neighborhood.

He said the idea of cutting of production to stabilize financial systems, is the worst idiocy you can imagine. The trick in a crisis is to mobilize credit *selectively*, in a dirigist mode, as Roosevelt did, and as every sane leader did in similar circumstances, to focus credit on getting people off the unemployment rolls into productive work; to foster investment in basic economic infrastructure; to absorb the unemployed in useful work; to foster investment in technologically progressive industries and other projects, which will raise the average productivity of labor; and to starve—not to starve the economy to save the financial system, but to starve the private financial system to save the economy. Which is why Roosevelt was not popular with the Wall Street bankers back during the 1930s, or later. They never forgave him.

And that's a recovery policy. There was thinking in that direction around the world; it's traditional American thinking, as opposed to the garbage that's become popular, the free-trade garbage, the insanity which has hit the economics profession in the past 30 years. That was traditional American policy, as I said earlier. Lautenbach, who reflects, of course, the influence of Friedrich List and people like that in Germany, reflects also something else.

### **The exceptional importance of the United States**

Get back to this question of, what is the United States? *This is a very important nation.* There is no nation on this planet which is as important as the United States, for the world as a whole. We may not look like that now; we may not be living up to that now; but that is our heritage, and all of the great leaders of the United States, in which Roosevelt can be included, proceeded from an understanding of that heritage.

We are essentially a European nation. We are a nation of the European Fifteenth-Century Renaissance. We are a nation which is born, in a sense, of a long struggle in Western Christian civilization, to perfect a form of society which is consistent with the proposition that all persons, men and women, are created in the image of God. And, therefore, we cannot tolerate a system in which some people, even the majority of people, live as human cattle under the rule of an oligarchy. That the mass of people should not live as human cattle, for the benefit of a ruling minority and oligarchy, whether a landed aristocracy, a state bureaucracy, as in ancient Babylon, Akkadia, or, a financier aristocracy, such as that of Venice, or London today. That it is not right that human beings, who should live in the dignity that should be accorded to people created in the image of God, that such people should be reduced to human cattle, for the benefit of those who belong to these classes of state bureaucracy, financier oligarchy, or landed aristocracy.

The object was to create such a form of society, a society consistent with this image of the nature of man, the intrinsic nature of man, man's ability that no animal has, that no monkey has—even Prince Philip, who professes to be a monkey, who claims to be a monkey—the ability to discover, and validate, a physical principle. The ability in the field of art, to take a similar contradiction, called a *metaphor*, and to adduce from that metaphor a new conception, a new principle, the principle of cognition, which governs improvement in the way people relate to each other, in social relations; which, together with the study of history, from the standpoint of Classical art, informs our minds of the way in which society ought to be run: always for the single purpose to create a form of society which is consistent with the nature of man, as Western Christianity conceived man, as Christ conceived man. As Christianity, for the first time on this planet, established the principle that *all* persons, with no racial or ethnic distinctions, are equal in the respect, that they are made in the image of the Creator, by virtue of this power, which sets man apart from and above the beasts.

And, the object of society must be to take this nature of the individual, from birth, to nurture the development of that individual, in a way which is consistent with that: This is something made in the image of God; treat it accordingly! Develop it! Develop those powers which lie there. Give this creature an opportunity to perform *good*, to live as an angel, who came to this life, developed, did a good that was needed, like the Good Samaritan, and then wandered off, at the end of life, having been a necessary person, who came as an angel, did a good, and left. And, you said, "Wait for the next angel." And, to look at every child as potentially that kind of person, that kind of angel. And, to live in a society where we can regard one another in that way, and regard ourselves in that way.

That was the purpose.

Out of this great ferment in Europe, which had a long history, we came, in the Renaissance period, finally, to the beginnings of the modern nation-state, European nation-state. But, that was not entirely successful there, because, in Europe, the powers of the old oligarchy were still great, the landed aristocracy, and the Venetian and similar kinds of financier oligarchies. Parasites, sucking on the blood of humanity, with great power, determined to crush anybody who would take that power, that privilege, away from them. In Europe, that never succeeded. But, the greatest minds of Europe brought their ideas to the United States, where we, on this continent, with the strategic advantage of a distance from the long arm of the European oligarchy, were able to form a nation, a republic, which was committed to perfecting itself in the service of that principle. And, in that period, at the end of the Eighteenth Century, throughout Europe, all of the good people admired the United States, and looked at the American Revolution as the great liberating experience which they hoped would spread to Europe.



In the subsequent period, with many fits and starts, there were many reforms introduced into Europe, in the direction of creating nation-states there. Most of these were done in the sense of expansion of the parliamentary representation of the people, so you have parliamentary government in Europe, as a tradition which is really not overthrowing the old oligarchy, but making heavier demands upon it, demanding a greater degree of power-sharing.

As Britain, for example: The United Kingdom has no constitution! The United Kingdom is a pure empire. That is, there is only one constitutional law in the United Kingdom. First of all, the Act of Settlement, which put this northern branch of the House of Welf on the throne of England, where it sat, and sat, and sat to the present day, where the brains seep down to the rear end, to increase the sitting power. The second thing was a typical pagan, pantheonic institution, in which custom, social custom and religious custom, were managed by the monarchy, by the oligarchy. And the oligarchy was told, and the monarchy was told, "Don't offend custom too much." In the old days of empires, that could get an emperor killed; if he was very offensive to the customs of one of the subject peoples, or even offended the gods, as the Pantheon prescribed, he could be knocked off, as committing a crime. But there was no constitution, in the sense of a positive assertion of the nature of the human individual, a conception of the individual on which the construction of the whole society must be based, and to which the development and functioning of that society *must be accountable*.

That is our particular genius.

### **Clean out the corruption**

Therefore, under those circumstances, in the United States, some of the greatest ideas of Europe found soil in which to flourish. Not always, because we also adopted an oligarchy in the United States; we developed it out of the New England opium traders, who pushed opium on China, from India and Turkey, during the Nineteenth Century, as partners of the British East India Company in that "noble" drug-pushing traffic, and became wealthy and powerful, in New England and elsewhere, as a result of it.

We had Manhattan bankers, who, beginning with Aaron Burr, largely tended to be treasonous agents of the British Foreign Office, or the British banks, who have no particular record of patriotism, where the United States is concerned. (They are attracted to U.S. dollars, but not to U.S. souls.)

Then, we have the Southern slaveocracy, and people like John Crowe Ransom, and other people from Nashville, the Nashville Agrarians, who represent the same kind of oligarchical decadence, immorality, the stink of the mint julep-sipping backer—not a member, but a backer—of the Ku Klux Klan, sitting on a Nashville porch someplace, sucking mint juleps, whose opinion of people in this country is not too good.

Yes, we had the same affliction in our own country. We had corruption; we have corruption today. Many parts of the

permanent bureaucracy of our government are corrupt. The Criminal Division of the Justice Department is a monstrous cesspool of corruption, which ought to be cleaned out. Some of us thought that maybe Janet Reno was going to clean that mess out, but she became a prey of that, rather than its expunger. The same bunch of filth is actually running behind this idiot Kenneth Starr—I don't think he could even read a law book rightside up. But the people behind him—like Hickman Ewing, a notorious racist, who is typical of the Justice Department mafia which is controlled by the oligarchical wealthy families, not by the people—should be cleaned out, so that we have a Justice Department which is dedicated to justice, not the interests of Wall Street, and particular families on Wall Street.

We have corruption throughout our government, largely embodied in permanent bureaucracies which are not controlled by elected officials. You elect a President: He doesn't control the Executive branch. The permanent bureaucracies largely control the Executive branch, as in the Justice Department, the Treasury Department, the State Department, and so forth and so on. As the people complain, we are ruled by a bunch of bureaucrats. What the American citizen recognizes from experience, the thing he or she hates the most, is these blasted bureaucrats! Not as an individual, but he recognizes that there is a slime-mold-like institution, called bureaucracy, which invades his life and destroys it, and destroys the life of his community, and strikes terror in the population. These are like the lackeys, the hired lackeys in livery, of the old lackeydom of feudal empire, the ones who ran around with the clubs at night and killed people, who did the dirty work for the ruling landed and financial aristocracies.

And, that's what we have in many parts of our government, many parts of our society. We have this corruption.

### **The issue of leadership**

And, generally in our history, it's only in a period of crisis that we in the United States, as in most other cases, have come back to ourselves. The greatest examples of that—the greatest of all, was that of Abraham Lincoln, without doubt the greatest President, one of the greatest intellects, we ever had in high office in the United States, despite the rumors and slanders against him. Look at his work, read his writings, as I have, look at his work in that light. This man was a great, gifted, noble genius, rarely found, and often killed, when found.

Franklin Roosevelt was a much lesser man than Lincoln, but in his time, like an angel, he served his purpose for our nation. He recognized our heritage, at least in part, and acted upon that with pungency and force, despite the Congress, and despite opposition. He was a President who, had he lived, would have transformed this world, as he threatened Churchill with doing, to eliminate empires, to shut down, immediately, at the close of the war, the British, French, Dutch, and Portuguese empires. To give the people of each of these former colonies the right to their independence, and to give them also

the right to free access to the same kinds of economic and technological advantages, for their own use, which we prize for ourselves. And to cooperate with them, in this great venture.

That didn't happen. In the spring of 1945, Roosevelt died. And lesser men, much lesser men, came into power: the friends of Harriman, the friends of Teddy Roosevelt, like Stimson, for example, who was a stooge of Teddy Roosevelt in the former period, the beginning of the century. That kind of person. They took over. We went in the wrong direction, away from Roosevelt's direction.

Kennedy, when he came into office, made some effort to try to turn things back in that direction. They got rid of him. Johnson was scared. I don't think Johnson was as bad as people think he was; the two civil rights bills he enacted, although under considerable pressure, nevertheless attest to a man who had a conscience, but a man who was convinced that he, too, could be shot, just as his predecessor had been before him. And, who got out of office, when the pressure got too great.

After that, we had essentially nothing. Reagan was relatively the best, but we all know his weaknesses. And now, we have this President, with his weaknesses.

But, you know, they say, "God works in mysterious ways;" and, sometimes, you can take a weaker man, like a

Clinton, a man who's a Baby Boomer, who has many of the faults of his generation: a tendency to waffle, a tendency to minimize risk, which is better known as waffling. Vacillating. Crying at the fact, "I have to do this" to somebody. Take a man of minimal, or limited capabilities, like a Clinton—who is not intellectually a bad person; he's probably intellectually good as any man since Kennedy who has occupied that office, just with these peculiarities of his generation. And somebody has to touch him, and say, "You must become this."

### People will rise to the occasion

Those of us who went through military experience, particularly some experience in *training* raw recruits, have a sense of this. Or other experiences may give you the same sense. Someone comes into a position for which they are ill-prepared, and someone says, "You're going to become a soldier." And they become a soldier. "You're going to adopt a vocation." And they adopt a vocation, and serve it at least with good conscience, and sometimes well. It's the nature of man, that you can call people from obscure, or improbable circumstances, and find that they will rise to the occasion, like the person who suddenly acts as a hero, in a fire in a theater, or something else. Persons rise to the occasion. And, one would hope that we could touch this President, and that he would rise to the occasion of becoming, at least, functionally speaking, a good continuation of what Roosevelt represented earlier.

The Truman-Churchill policy was to reestablish the power of the Anglo-American oligarchy, the financier oligarchy, over this planet. And, a lot of evil was done. You had President Eisenhower, whom I used to refer to as President Eisenhowever, because on the one side, he'd do *this*, and on the other side, he'd also do *that*.

We have some good things that have happened, but we *have not been ourselves*. And we have now come to a great crisis, in which people have to be touched, like heroes who come forth in battle, to do a job. And they will succeed, if they can pick up the great legacy of the United States. The things that people, even in the 1940s, during World War II, all over the world, in India, for example, and elsewhere, would, look at me, as a soldier, and say, "When the war is over, are the Americans going to help us get our freedom? Are they going to help us develop an economy, a society like the United States?" We were admired; we were loved. And the Truman-Churchill policy, which was inaugurated instead of the Roosevelt policy, at the end of the war, caused us to lose much of that love. Because we betrayed it. Like the husband who betrayed his wife, we betrayed that trust and love.

But, we come to a time when we must do it again.

### A systemic crisis

The problem is this. The reason I got onto this: It's crucial, to understand the difference between a cyclical and a systemic crisis.

Now, there is nothing in economics which requires us to

**"Long before Paula Jones,  
long before Monica Lewinsky,  
there was a conscious decision, made in  
London, that there would be a full-scale  
campaign to destroy Bill Clinton,  
and to destroy, once and for all,  
the credibility of the office of the  
Presidency of the United States."**

—Lyndon H. LaRouche, Jr.



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have business-cycle crises. This does not come from economics; it comes from politics. Ours is a society, including the United States, as well as European society, which is based on two conflicting forces.

On the one side, you have the forces of *national economy*: These are *entrepreneurs*, the people who actually *produce*; these are workmen; these are normal people; these are professionals, the people whose interest is in scientific and technological progress for the betterment of life and for national security. These are the people who rally to save the nation and to build it. That's their *interest*: They want to make things better; they want to increase productivity, to address problems. We call these *the social forces of national economy*.

If we had to deal only with the social forces of national economy, we would never have a business cycle. The business cycle arises very simply, because we have a parasite on our backs.

The parasite is the financier oligarchy, which exists today as a clone of ancient Venice, which sits on top, which controls our central banking systems, controls our private financial institutions, and exerts great and corrupting power, which it then uses to extract usury from the real economy. And, as these people become richer, during a period of prosperity, the rate at which they suck blood from the economy increases. At a certain point, the amount of rent, and interest, and other charges, financial charges on the economy, becomes very large. And therefore, the flow of wealth from production does not flow back into society or into production, but instead flows into the assets of these financier oligarchy interests, who are much too wealthy for their own mental and moral health, who can be seen, with their degenerate practices, and so forth, displaying them in public. They try to act like Hollywood actors and actresses, or something, or some similar kind of degenerate.

And therefore, we have a crisis.

Now, in former times, when national security was a matter of issue, you would have depressions, periodic recessions or depressions, which were entirely the result of the interest and influence of this parasitical *thing* sitting on top of society, whether in Europe or in the United States, called a financier oligarchy. The loan sharks: They sucked your blood. If they were poor and dirty and unwashed, you called them loan sharks; if they were wealthy and powerful, you called them financiers. Same thing, actually, when it came down to it! A loan shark is simply a thief without a Wall Street office.

So, the characteristic of society in the Eighteenth and Nineteenth Centuries, the Eighteenth Century in Europe, the Eighteenth and Nineteenth Centuries in Europe and the United States, the Twentieth Century, up until the Kennedy administration, was of a balance, where the loan sharks, the financier oligarchy, would suck the blood of society, and have a periodic accumulation of this blood-sucking; the economy would go into negative growth, as a result of financial looting, and you would have a recession or depression.

Now, along would come a crisis, such as a threat of war, or the perception of a possible threat of war, or some other great crisis, and you would find that the national economy forces would somehow get back into power, in order to rebuild the economy, either to prepare for a possible war, to conduct a war, or deal with some other provocative emergency. So, you would have a period of growth.

If you look at the history of the United States and Europe, you would find that pattern. When does growth occur? Is there a decennial crisis, as Marx said? No, that was nonsense. There's a pulsation which is based on this relationship—the intersection of political events and crises with this economic process, which is this struggle between two political forces: the financier oligarchy, which generally sits on top, and the forces of national economy, whose interest is in growth, what normal people would want.

So, the problem has been *that*.

### **The shock of the Cuban Missile Crisis**

Up until 1962, what was different? In 1962, certain people engineered a nuclear crisis called the Cuban Missile Crisis, and the people who engineered this had the objective of eliminating the nation-state, and similar kinds of policies: people like Bertrand Russell and his co-thinkers. Khrushchov was among the people involved in this conspiracy, in a sense, with Russell, from 1955 to 1962-1963; Bertrand Russell and Khrushchov were essentially a pair, an "item," so to speak, a political item.

So, what they did, is they orchestrated a missile crisis, which produced a great *shock*—a cultural shock, which made possible what became known as the Baby-Boomer phenomenon; accumulated fear of the postwar nuclear conflict building up in people who were born either during the war, or after it, young people, who lived all their conscious lives in fear that the United States was going to be involved in a nuclear war. This *terror* struck the population! And suddenly one day, in 1962, *bang! It hits!* For several weeks, people are going in every saloon, looking for a church, because they think the world is going to come to an end tomorrow. *Terror! Pure terror!*

Now, Kennedy did essentially the right thing. But what was said about this conflict was something different. As a result of that, the people in the oligarchy—McGeorge Bundy, Henry Kissinger, people like that were all part of this—said, "Now, we have got into a position in which the United States, Britain, and the Soviet Union have agreed to enter into a process of *détente*, that because of their fear of a nuclear war, or having visited the brink of a nuclear war, they will now no longer think of going to a general nuclear war. We can still have war, but it will be limited. We will tend to have surrogate wars, such as—the Vietnam War was a surrogate war. Or, we will have other kinds of conflict, called irregular warfare, terrorism, other kinds of things, as a way of adjusting and shaping diplomacy, called cabinet warfare. We'll do that. But,



A scene from “Hair,” one of the hallmarks of the 1960s counterculture. “The predominant characteristic of this student population, of that period,” says LaRouche, “was lability, suggestibility—they were changing their sex, and their political spectrum, from one morning to the next!”

we’re no longer *in danger* of a general war.”

Therefore, it follows, from their standpoint, that “It is no longer necessary to maintain the kind of preparedness of national security economic policy which we previously have maintained. So now, we can go to a different kind of policy; we can begin to *take down* industrial society. We can begin to eliminate the strength of the forces of national economy. We can go into a society in which people are generally serfs, or human cattle, who stroke their forelocks and bow, as the aristocracy arrives back in the evening—if it’s not on its horses, then its Cadillacs, or whatever.”

### **From reality, to make-believe**

And, the cultural change was introduced: “We’re saying we are no longer going to rally to crisis with mobilization of the economy, the way it happened under Roosevelt, or earlier.” And, that’s how their policies are introduced. This became known as the great cultural paradigm shift of 1964-1972, so-called by the London Tavistock Institute, which was involved in this, and which was the most avid student of this process.

And thus, you had in Europe, and the United States, and elsewhere, you had what was called a “march through the institutions”—that the university student-population, of the 1964-72 period, began to move out of the universities, in a normal way, to occupy the professional positions, and related positions in government and business and elsewhere. And so, more and more, through the normal process of attrition and promotion, higher and higher ranking positions in govern-

ment, in business, in the professions, were occupied by people who tended to share this special kind of thinking which occurred in the Baby-Boomer phenomenon, in the aftermath of the ’62 Missile Crisis, the assassination of Kennedy, the assassination of Martin Luther King, and Bobby Kennedy, and so forth. So, the population was put into a shock.

Now, when a population goes into shock, as the Tavistock Institute describes it—Remember, this study by the Tavistock Institute was based on World War I experience. It was Brig. Gen. Dr. John Rawlings Rees of Britain, who was involved in study of what were called “shell-shock” cases, from the trenches in World War I, who found that the shell-shock victim was a person in a heightened degree of suggestibility and lability of behavior. And the question was: “How could you *artificially*, apart from actually having trench-warfare, how could you induce this same quality of lability and suggestibility into a population, a large population, or individuals, without taking them out in the trenches?” That became the concern, the *stated* concern, of the Tavistock Institute.

What we had, therefore, as a result of the prolonged nuclear crisis leading up to ’62, the impact on the minds of the young, the nuclear crisis, the assassination of Kennedy, the assassination of Martin Luther King, the assassination of Bobby Kennedy, and the Vietnam War, you had a *shock effect* on a generation which had been poorly prepared to cope with this in childhood, because of the conditions of life in the 1940s and ’50s, and which was totally unprepared psychologically or morally to cope with the crisis represented by this chain of events of the 1960s.

What do people do when they are confronted by that kind of shock, with that kind of moral weakness, a weakness of character, mass-induced in our children? They become highly suggestible, and they flee into unreality. They flee into various kinds of virtual reality. Now, we didn't call that virtual reality before. We used to call it *make-believe*. Fairy stories: "make-believe." And, if you studied closely, as I did, the behavior of the leading stratum of students on university campuses in the 1960s, late 1960s and early 1970s, that's exactly what you saw.

The predominant characteristic of this student population, of that period, was lability, suggestibility — they were changing their sex, and their political spectrum, from one morning to the next! Always running from one thing to another. There was *extreme* lability, and *extreme* suggestibility. You would examine the students, as I did, and ask them things, to find out what's going on in these funny heads of theirs, and you would find out what there was: There was a flight into make-believe; that the entire rock-drug-sex counterculture was a flight into pleasure, momentary pleasure-seeking make-believe.

The idea of happiness, as we had understood it earlier, no longer existed. Happiness, of course, is the conception: "I'm doing good work. I enjoy what I'm doing for humanity. I feel my life is worthwhile. I'm doing a service. I'm like an angel, here on a mission, I'm doing just fine. It's very good to be an angel! And this is beautiful, and that's beautiful." That's *happiness*: knowing you're going to die, and knowing that your life is meaningful, despite the fact that you're going to be leaving it in a fairly short time. That's called *happiness*. Happiness to see generations coming after you, prospering. Happiness to see the country becoming better. Happiness to see beauty in works of art. Happiness to have a thought which solves a problem. *This* is happiness.

But these young people didn't know what happiness was. They only knew a substitute for happiness, called "momentary pleasure," and momentary pleasure is that — just momentary. So, once you've had it, where do you go next? It's a short trip between filling stations. And, that's what happened, is extreme suggestibility.

So, what we've produced in our country — the shock-effect here — is we've produced a population which is saturated, as your entertainment media will show you. There is no cognitive content to most entertainment on television. None. It is a world of make-believe and pleasure-seeking, from sensual effects in a world of make-believe. Pyrotechnics in a world of make-believe.

And that's our population. Look at our news media; look at all our entertainment media. Look at the behavior off the job, of people. Look at the standards of what behavior is in the corporation or the government office, today, as compared with the performance-period of the 1950s or early 1960s. We do not have performance-oriented people, in terms of the physical result of what they're doing, or the effect of what they're doing on the physical result. We have people oriented to political

correctness, to perceptions, to fantasy, to *make-believe!*

Now we come into this situation, where people say, "What you have to do in making policy, is you have to make policy to *fit the consensus*." What's the consensus? It's fantasy. It's make-believe.

Well, we're coming to a real crisis, and one must say, "Buddy, the Mongols are *here!* They're gonna kill you."

"Huh? The Mongols, man? Huh?"

You get that kind of reaction.

## A reverse cultural paradigm shift

But, as you have seen in the reaction in Southeast Asia, and elsewhere, and also in the United States, as we closely monitor it, in this period, there is a reverse cultural paradigm shift in process in the world today. It's in process in the United States.

The Democratic Party is in a fight, between the old Democrats, the traditional Democrats, who represent, in a sense, a sensitivity to bread-and-butter issues, to real-life issues, and the New Democrats, who are completely fantasy-ridden.

Then you have — In the Republican Party, you have several varieties of Yahoos, plus some old Republicans, who are actually human beings, and who are dismayed by everything going on in the Democratic Party *and* the Republican Party, and among the independent voters, at the same time.

So, you have a process of tumult, in which the Republican Party, as you see from what's happening in the Congress recently, in is the process of fragmenting. The slime-mold principle is coming back into operation. The Democratic Party is fragmenting. The majority of the voters aren't associated with either party, and don't vote. And yet, the nation is in an existential crisis. And we find that in the field, out in the field, in the boondocks there, individual American citizens, the natural, organic leaders, the people who tend to respond with thinking most quickly, are responding, and they're organizing their friends and neighbors. For what? Just to talk about ideas. But important ideas, that bear on this situation.

You see in this attack on the President: The popularity of the President persists, because of a reverse cultural-paradigm shift, of disgust against Starr and Co. in the population, and against the Congress. The HMO issue, as it spreads among Republican candidates, exemplifies the same thing.

So, what you have to have now, is a leadership like a leadership in warfare, which doesn't say, "What is the bell curve showing what public opinion is up to now?" You have to have a leadership which says, "What are the people demanding as something *new*, which they want as an idea to replace that which they now fear?" The leader is a person who stands out *in front* of the people.

You know the old joke of the French Revolution? A couple of guys, political guys, are sitting in a café, discussing politics, and a mob runs by the café. The guy says, "I gotta go out and lead that — that's my mob." That's a typical American politician, isn't it? He says, "Well what do I think? Well, what's my pollster think?"

FIGURE 1

**U.S. import-export trade as percentile of foreign exchange turnover**

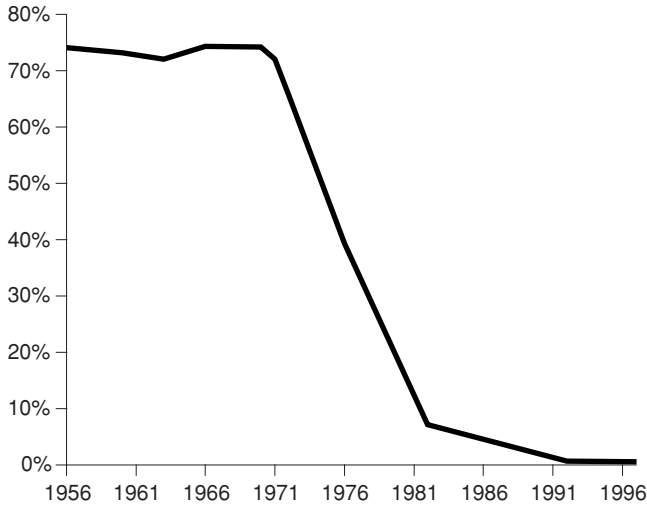
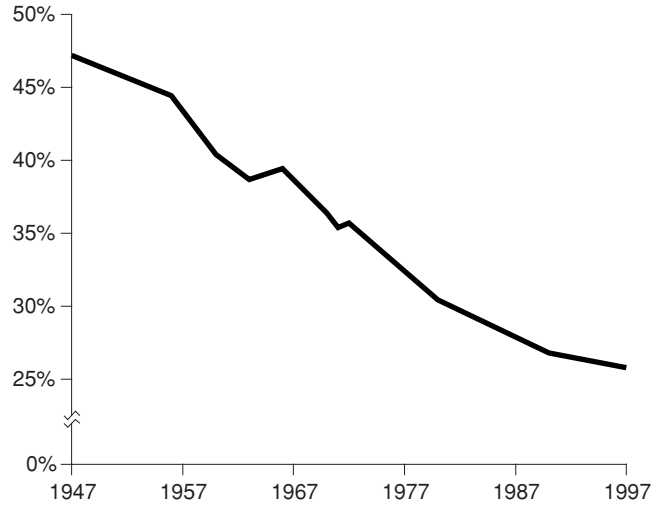


FIGURE 2

**Productive employment as percentile of total labor force**



**Collapse of the U.S. physical economy**

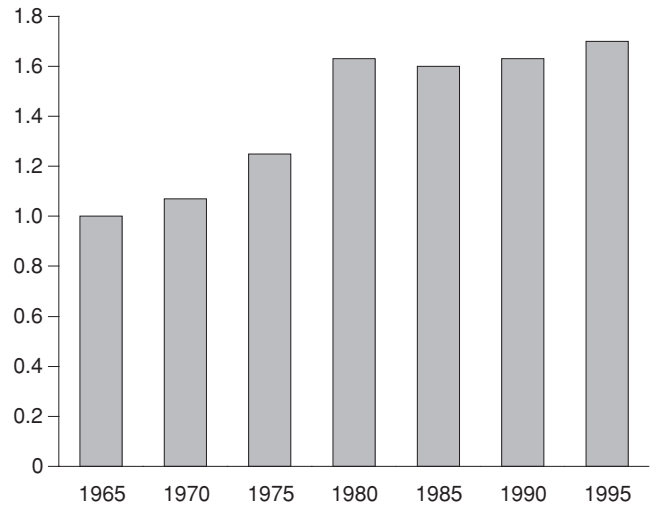
Now let’s look at some fun: just a few animated, or quasi-animated charts and graphs, which give you some indication of this change which occurred in the U.S. economy from the period of 1946, into 1966, and then the degeneration of the U.S. economy which has occurred since about 1972.

**Figure 1:** Here we have the relationship between the turnover of imports and exports, as trade, compared with the total foreign-exchange turnover. In other words, what percentage of foreign-exchange turnover is caused by imports and exports? We were running at about 70% plus, consistently, from 1956, into 1966 and beyond, up to 1971. Now, look what happens after 1971: We’ve gone from 71%, approximately, on average, which was traditional up until 1971. Seventy-one percent of the foreign-exchange turnover, in dollars, was related to imports and exports. Those were the good old days. Then, from 1971, with the introduction of the floating-exchange-rate system, following Nixon’s decision of April 15, 1971, you had a rapid collapse in turnover, so that we’re now down to where less than one-half of one percent of the total foreign-exchange turnover is accounted for on trade account. That’s called the door to bankruptcy. That means that most of our foreign exchange involves speculative hot air.

**Figure 2** shows a similar kind of pattern. Take productive employment—that’s people who actually produce physical things: infrastructure, agriculture, industry, and so forth. Look at that as a percentile of the total labor force, again to 1971. So, you have a secular decline from about 50% in 1946—in 1946, about 50% of us were actually working at producing physical wealth. It dropped down to 30-40% as we went into the 1960s. Then, what happened?

FIGURE 3

**Number of jobs required to meet 1965 standard of living**



So, this is the problem!

Now, let’s look at the effects of dropping the percentile of the labor force which is engaged in doing something useful, to see what happens in terms of some of the other characteristics of the economy, monetary characteristics. What happens? **(Figure 3)** The government is still there; it still costs as much, per capita, *but*, you’re earning less. What happens? The tax

FIGURE 4  
**Federal and state taxation as percentile of personal income**

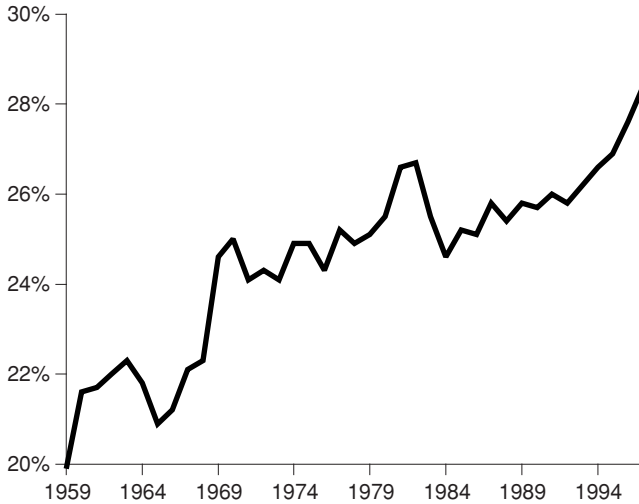


FIGURE 5  
**Federal and state taxation per capita**

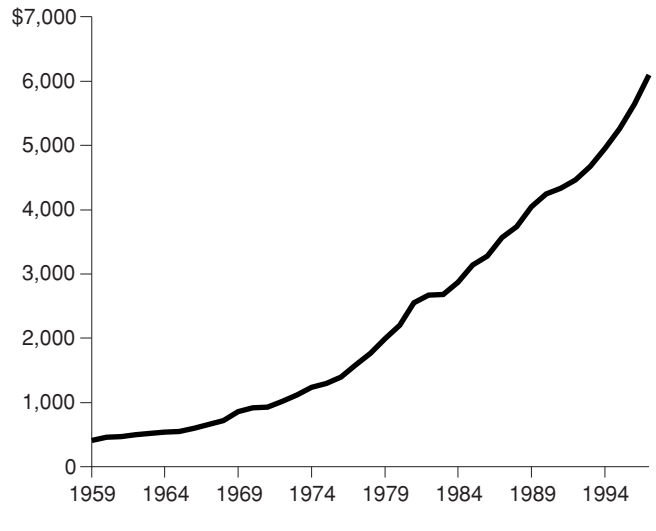
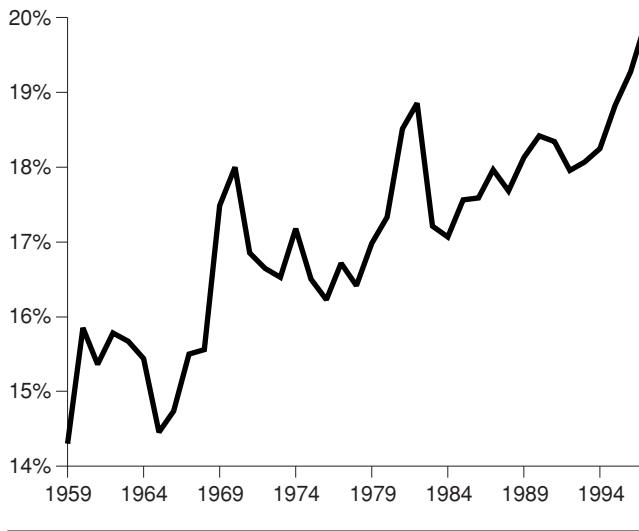


FIGURE 6  
**Federal and state taxation as percentile of GDP**



rate, the effective tax rate, combined tax rate, rises, on state, local, and Federal taxation (Figure 4). It rises, because you have fewer people actually producing — half as many, approximately — and therefore, you're tending to double, or approximately double, the burden, for the same government, on the citizen.

Now, look at this in terms of per-capita taxation (Figure 5); that gives you an idea of the same thing. Always bear in

mind the relationship between per-capita taxation and the percentage of the population, labor force, which is actually engaged in productive labor. Now, this is a dollar amount, which is not truly indicative, but it gives you some idea about what people are squawking about, which actually is a result of a decay in the economy. It's not a result of government growing too much; the government has actually shrunk, in all relevant aspects, in its goods and services. What you're seeing is the effect of a decay *in the economy* as a productive process. It costs more to get the same result. Less efficient.

Figure 6 is more indicative. You compare the growth of taxation, as a percentile of Gross Domestic Product, which is more directly reflective of the impact of the contraction of the percentage of the labor force which is actually engaged in productive labor. The same thing, same kind of process.

Figure 7 shows the same thing: The Federal tax base is shrinking, as a percentage of GDP. That's what the problem is. The problem is not anything that the Congress likes to talk about; the problem is very simple: If your economy has gone down to about 50% of the productive efficiency it had at one point, then obviously, everything is going to cost more, because fewer people are producing, but your actual costs of maintaining society are approximately the same, in physical terms.

And if you compare the two curves, you will see a correlation between this deficit (Figure 8), which began to become serious under Carter — the time we began to get this cumulative debt was with Carter. What you're seeing is a collapse, in the recent period, through so-called budget-cutting, a collapse of essential services to the population.

So, you see a correlation between what people experience, and the actual cause of this problem. People try to have a

FIGURE 7  
**U.S. Federal tax base as percentile of GDP**

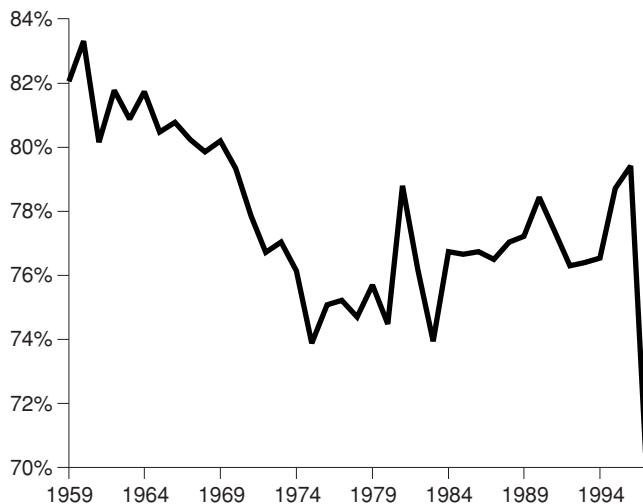


FIGURE 8  
**Federal budget deficits as percentile of GDP**

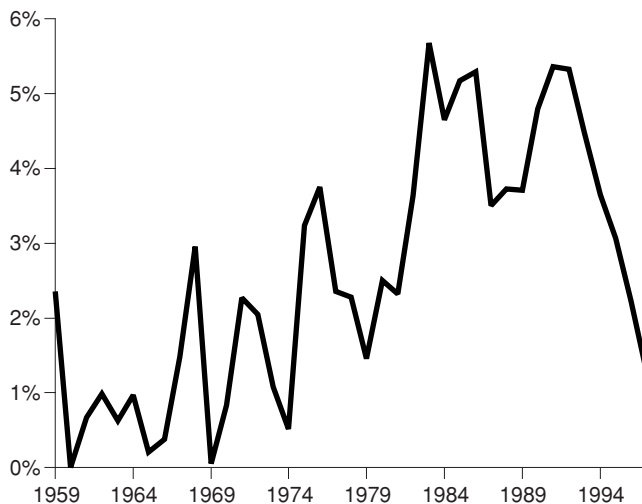
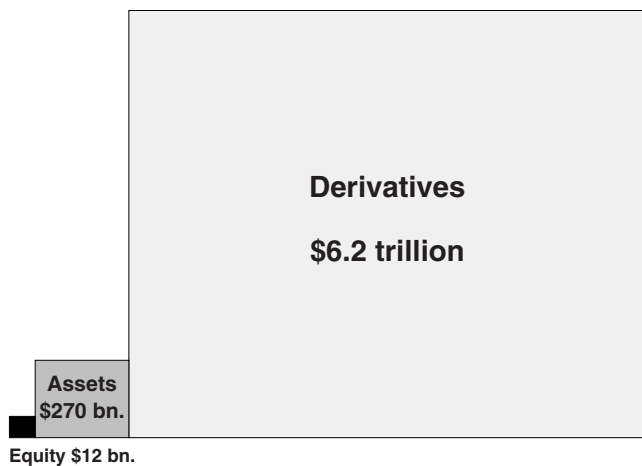


FIGURE 9  
**J.P. Morgan & Co.'s derivatives, assets, and equity compared**  
 (as of Sept. 30, 1997)



simplistic explanation, but here's the correlation, a very simple correlation. You could enhance this by showing more scale, but you would get the same effect: the tax-base collapse of the recent period.

Then, you find the fun one here (**Figure 9**), the 300 pound flea on the 40 pound dog. This shows derivatives. Remember, derivatives are gambling side-bets on the financial market; they're not investments, unless you consider gambling a side-bet in respect to Gross Domestic Product.

Now, the crucial point here is simple. Let's look at the 300 pound flea on the 40 pound dog: equity, assets, of J.P. Morgan. Look what we've got here. Now, derivatives. Look at this! Look at this! There's the 300 pound flea!

What does that mean?

### The world economy is bankrupt

What it adds up to, is that *the world is bankrupt*. Every central banking system of the world is hopelessly bankrupt. Why? The key indicator is, that we have over \$130 trillion equivalent, minimally, of investments in so-called derivatives. Now, the greater part of this investment, so-called, is off-balance-sheet and unregulated, totally unregulated. No one quite knows, because this business goes on, seven days a week, 24 hours a day, through electronic circuits. People sit down with personal computers, plug into the Internet, or similar devices, and they trade. They make trades with all kinds of people, for all kinds of things. They make obligations, which they then peddle, or they trade off on the obligations; they pyramid this. The greatest amount of turnover, of financial turnover, per day, in the world, is *this*, this filth, derivatives, \$130 trillion of derivatives. In the United States, we have over \$30 trillion on our banking system alone (**Figure 10**). These are all current obligations. This is an amount which is several times greater than the total GDP of all nations combined!

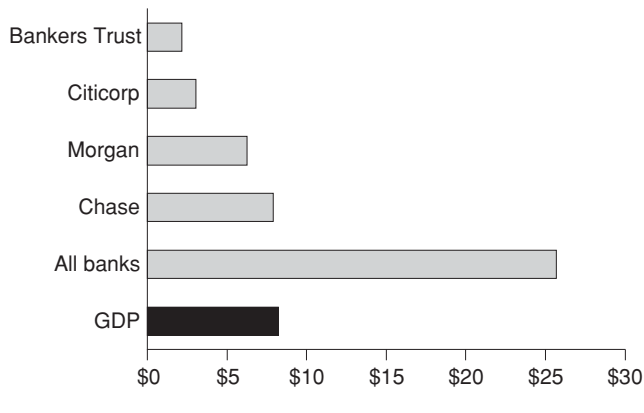
Now, if your current obligations are several times greater than your gross annual income, what do you call that? Bankruptcy! Every banking system, every financial system in the world, is bankrupt. Which is why Bob Rubin has to say, "Not a nickel to bail out the banks." Because, what happens if you



FIGURE 10

**U.S. bank derivatives compared to GDP**

(trillions \$)



try to bail out the banks? It's a bottomless pit. What happened with Japan? Japan is now going into a Weimar hyperinflation-style pump-priming, to try to bail out the banks. On Wall Street, in order to try to politically manipulate and massage the stock-exchange figures, to manipulate the minds of dumb Americans, to get 'em for one last round: they pump money, in a hyperinflationary mode, into the financial system, in order to leverage, to build up a growth in the price of equities. And people believe it!

Well, what does that mean? It means that, when push comes to shove, when this collapses, *you can not pay off any of this.*

Now, suppose you had a private bankruptcy. You have a firm, or take a bank—"bankruptcy" is named after "bank"—what do you do? What do the auditors, what does the government do? You have to come in and sort out the garbage. You have to decide what, in terms of *policy*, you will pay or guarantee—that is, you may not be able to pay out the savings, but you're going to guarantee them, so people now have that saving as a credit, which can be used. You will find certain assets which, in a recovery, will have a certain value, so you may freeze those assets, and wait for the recovery. But, you keep those values on the books, because the government thinks they're reasonable, that there will be a recovery, and that these things will come back to their proper value. So, you simply set prices.

Now, you come to the real garbage, which is sitting there at the back of the line. "Buddy, you'd better go home. There's not going to be anything for you, now or ever." We're going to have to wipe off the books, over \$140 trillion of dollar-equivalent value, of current financial assets. There's nothing we can do about that! That decision was already made, when we let it become like this. There's a consequence. If you're a drunken driver, and you keep driving, you're going to be killed! Don't blame the accident for your getting killed; blame

yourself, for being a drunken driver. If you're doing this, and you're doing this for years, and you come to a catastrophe, don't blame anybody else; blame yourself, for doing that. We have no one to blame but ourselves for this mess. The blame lies with what we allowed ourselves to believe, or to tolerate, over the past 30 years. We tolerated changes in policy, which no sane government or no sane people would tolerate. The accumulated effect of these changes has been to produce that effect: The economy is bankrupt. The banks are bankrupt. So, you have to shut down the banks!

Now, what do you do?

We've done it before: You have a general bank reorganization. The local East Oshkosh bank is necessary, so we keep it in business. But, you say, "It's bankrupt." No, we'll keep it in business. We'll put it in reorganization, receivership. The banker will sit there, the depositors will be assured that their deposits are covered. We will continue to service the community, which you must do. We will supply Federal credit, to make sure that this bank is able to function, has something to give to keep the community alive! Because social policy is the question here: Are you going to keep communities alive, or are you going to write people off?

That's what we did in the 1930s, what Roosevelt did: Find ways to keep people employed, to keep them fed, keep things moving, and, while you're doing that, build a recovery, which will solve the problem. And, we're going to have to do that.

And, what the problem is in Washington, and elsewhere, is they don't have the guts to face up to this. In Japan, as you see in the case of Sakakibara, the minister—he's said things which show, and I know personally, from my contacts in Japan, they know what this is about. I warned, when I was on a trip to Japan in 1995, I met with leading circles in Japan; I warned them exactly that this was going to happen. They all *knew* it was going to happen, and it *did* happen. And some of them won't talk to me now, because they lost face, because they opposed me then. It's a very embarrassing thing, this face-losing thing. Who cares? They were wrong, so what? They don't lose face; if they correct their errors, as far as I'm concerned, they're as good as gold.

But that's the problem.

So, what are they doing? They are politically so involved in bailing out banks that cannot be bailed out, that they're willing to destroy their whole economy, in a great mass *seppuku*, in order to save face for the banking system. And they'll destroy, not only themselves, but they'll destroy, if they're able to, they'll destroy Southeast Asia and other things as well.

This is insanity. You have the same insanity here. "Oh! Oh! Oh! You can't *do* that!"

That's the difference between a leader and a weakling; that's the difference between a commander, in the tradition of von Schlieffen, and a muddler, who averages the risks, who loses wars and other things, like young von Moltke. That's the difference.

## A recovery program

Now, the key thing here, is this: recovery program.

We've been working on this for a long time; I've always known how to do this, at least in my adult life, most of my adult life, I've been working on it.

Let's go back to Lazare Carnot, a great commander, one of the best. A great scientist, great military commander. He devised, as I said, the Machine-Tool Principle. And it looks simple on the surface, but it's more complicated than that, because he was a great geometer, among other things. But essentially, what the French were able to do, among other things, is to mass-produce mobile field artillery. Now, this was done by machine-tool standardization of construction, assembly. And thus, the French were able to mass-produce mobile field artillery. Now, if you know the methods of warfare at that time, if you could turn up on the field of battle with mass field artillery, you can control a lot of things; you can sort of reshape the terrain. And these were among the things that changed things.

At the end of the Napoleonic Wars, people left France—patriots. Some of them came to the United States. They ended up, in part, at West Point Military Academy, or at least advising West Point Military Academy, particularly during the period of Commandant Sylvanus Thayer. What they brought, is the Monge program of mathematical and engineering training: the greatest source of engineers, which made our military excellent, that the officers were trained to be engineers, not slob. And the Corps of Engineers was a product of this kind of training. So, we had an engineering capability which, in that period, the period following the War of 1812, and Thayer, and afterward, came to be centered in West Point. When Annapolis was created, largely under the influence of Alexander Dallas Bache of Philadelphia, who was a confidant of people like Alexander von Humboldt, as well as Gauss, it was created on the same basis: of creating a naval engineering, scientific capability, as the basic program in the establishment of a naval academy at Annapolis.

Along came the Civil War; the United States had been kept backward, and actually somewhat retreated, as a result of the influence of the Southern slaveowner faction, together with the New York bankers, on the economy. We got into a war; the Southern slaveholders had absented from the government, so the government was now free to make decisions without consulting the slaveholders, because there was a war between the two forces. Under these conditions, Lincoln, advised by Henry Carey, set into motion a program of rebuilding the economy for war, and for other purposes. And in that process, as I said earlier, from 1861 to 1876, the United States emerged as the world's leading economy, in economic strength, as well as the most technologically advanced economy in the world.

Why?

Because the U.S. program, which was based on collaboration with people in Germany, such as Gauss and Alexander von Humboldt, German science, and was based at the same

time on the influence of the French Ecole Polytechnique, and the program introduced at West Point, in engineering. The United States was able, very quickly, with these cadres and with this science, to create a machine-tool-design industry, which enabled the United States not only to produce the logistics of warfare, but to make a revolution in economy in the same process, a revolution which continued beyond the war itself. That became known as the American industrial model.

The key thing is this: What defines an economy—and I'll indicate what the relevant implication is—what makes an economy successful, is long-term investment in increasing the investment in means of production, in infrastructure, and in people, per capita and per square kilometer. This means a large capital accumulation in these areas.

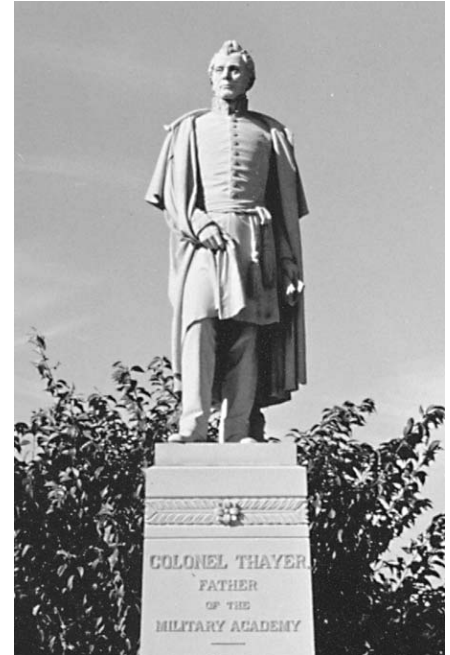
That's the problem that China now faces, in trying to deal with an employment problem, a continuation of its employment program, in light of the fact that there's not going to be any foreign capital coming in to China, as they expected earlier last year; it's not going to be coming in. So, China has adjusted its policy to fit the reality of the world crisis. Now, they're going to have to rely on internal infrastructural programs, rather than what they thought would be a transformation aided by large influxes of foreign financial investment. It's not there anymore. So the Chinese, being very intelligent people, have done the intelligent thing. The leadership, Zhu Rongji, the new Prime Minister, is part of this, and they made a change in their policy, which is not a change in policy, because China's policy is *to survive and grow*. And deal with security problems. So, they're going to continue to deal with the policy of survive and grow, under the program of reform with Chinese characteristics; that's going to go on, but they have to adapt that policy to the weather conditions, and similar conditions, that hit them. And, they're going to do that.

Now, how is China going to sustain a very large investment of employment of previously marginal labor, in new industry? How is it going to do that, and avoid unemployment? How are they going to empty the parasitical aspects of the industrial rice bowl from the state industries, and put some of the people who are living on the industrial rice bowl out to employment in new industries? How are they going to do that? This is going to be a very large infusion of capital, of social capital, into this expansion of employment, under conditions where the world financial markets are collapsing. How is China going to do that?

Well, it's very simple. If you do not have a large factor of technological progress, you *can't* do that. You can only do that with high rates of technological progress. Now, how does technological progress occur, and what is China's problem, and how do we fit in with this, in this case?

## The secret of modern industrial economy

The secret of modern industrial economy is scientific and technological progress. How does that work? Well, you have to improve the infrastructure; you have to build water systems; you have to build power systems; you have to build



*The tradition of France's Ecole Polytechnique was influential in the United States via such institutions as West Point and the U.S. Army Corps of Engineers. Left: The Army Corps of Engineers' construction of the Bonneville Lock and Dam Project, near Portland, Oregon. Right: West Point Commandant Sylvanus Thayer.*

transportation systems, which is largely a state responsibility. This has never happened adequately except under the direction of government. You can not build transportation systems, you can not build power systems, you can not build water management systems adequate to the needs of modern society, except as the economic activity of government, which may farm some of this stuff out to private interests, as we did with our utilities industry. But it is government's responsibility to have this done and to regulate it. Otherwise, no economy. "No hands, Ma!"

The government's responsibility is also to foster a system of education and scientific research, which will create scientific progress, and will create a population, unlike the Russian civilian population under the Soviet system, which is capable of assimilating technological and scientific progress at high rates of efficiency. That's not so easy.

Thirdly, the government must provide the means for fostering the realization of scientific research and this educational program, in terms of investment of this technology into farms, industries, and so forth.

The result of that will be, of course, an increase in the productive powers of labor per capita, and therefore, the trick in this is to get a sufficiently high rate of increase of productivity, to offset the otherwise increasing capital costs of your employment program.

### **The Machine-Tool Principle**

Now, what's the problem then? The problem is, this requires a very highly developed machine-tool-design industry. What is a machine-tool-design industry? Let me walk you through this issue, very quickly, in this concluding section.

Since the middle of the Fifteenth Century, the idea of science has been revolutionized — what we call science today, or what competent people call science today, is not what people thought science was generally, prior to the Fifteenth Century — as a result of the influence of the work of one man, Cardinal Nicolaus of Cusa, and a series of his writings, including a work called *De Docta Ignorantia*, published in 1440, which created the idea of modern experimental science, and also some of the principles of that.

This work, for example, was studied by Luca Pacioli, who was the patron of Leonardo da Vinci, and studied extensively by Leonardo da Vinci. This was the work which, directly and indirectly, shaped the thinking of Johannes Kepler and of William Gilbert and others, who were the founders of modern science and modern technology.

The basis of modern science, is so-called experimental physical science. What does that mean? If you are given a problem, a crisis, you say, "The figures don't jive. The experimental evidence shows that what we believed to be true, is not quite true. There's some error in what we think."

So, you take this and you think about this, that is, the scientists. And you say, someone says, “Well, I think I’ve discovered a principle.” And a group of people agree: “Yes, that is a valid discovery. We go through the same exercise, we come to the same conclusion. You’re probably right.”

Now, what do you do next? What you do, is you go to a very sharp machine-tool designer — or you may do it yourself, because you have that capability — and you build an experimental apparatus. It may be a new kind of telescope, it may be something else. But, you build an apparatus which is designed to test that principle you think you’ve discovered.

Now, when you have completed a successful test, and have proven the principle is valid, by scientific standards, what have you got? You’ve got a refined machine experimental design, which is a machine-tool design. Now, the application of that design to any field of application, results in the generation of a technology which can be copied from the experimental apparatus, and put into designs of products and designs of industry. This is true in chemistry, it’s true in astrophysics, it’s true in every other department.

So, therefore, what you require, is a relationship between a government-steered program of scientific research and advanced education development which is science-oriented, in particular; a relationship between that, and experimental apparatus builders, to a machine-tool-design industry. The machine-tool-design industry turns technology into what? It turns designs into designs of products, improved designs, and new kinds of products. It turns these same principles into new conceptions, and new kinds of productive processes.

The result is, that with less labor, you get better result and more result. As a result of this transformation of ideas from the creative mind of man, of educated man, of developed minds, you get a transmission through the machine-tool industry, into the average practice of life, of daily life. And if you invest in this process, if government says, “We will give preference to the promotion of investment in useful inventions, we will sponsor entrepreneurs who will do this, we will give them cheap credit” — as we did during the war. We supplied machine tools to all these guys who were bankrupt, and that’s how we got our war machine. You could go around and find machine tools all over the United States: “U.S. government property” all over them. And, that’s how we produced. The government subsidized it. And, that’s how we built the great recovery of the postwar economy.

The problem, then, in Asia, is what? There are only several countries in the world which have, today, an adequate or reasonably adequate machine-tool capability. We don’t really have an adequate one. These are the United States, which traditionally was a machine-tool country, after 1861-1876. We were the beginners of this policy. Actually, it was begun by Lazare Carnot, but we became the first ones to develop an entire economy, based on a machine-tool-design principle.

We’ve lost that. We destroyed it. We can no longer make a space shot the way we — the same space shot we made in

1969. We lost it! We lost it ten years after that. We couldn’t replicate that any more. We’ve lost essential industries necessary to do that.

The other country, the leading one, is Germany. The other leading country, is Japan. You have a small one in Korea. You have something in Austria, you have something in Switzerland, a bit in Italy, some in France. But generally, the machine-tool powers of this planet, are traditionally the United States, Germany, and Japan.

Now, in the Soviet Union, and now in Russia, we have fallow what used to be called elements of the scientific military-industrial economy, which is the only section of the Soviet economy that really worked, where you had scientists who were taking crap produced by the civilian economy, and making effective weapons. This was a scientific-driven, machine-tool-technology-driven military. The famous Soviet superweapons all came out of this kind of stuff. This is fallow, it’s not being used; it can be revived.

But then you go to China: a great part of the human race, 20% of the human race. Go to India, which is going to have a larger population than China in a few years, by the end of the century. Go to adjoining countries like Pakistan, Bangladesh. Go to Southeast Asia: Indonesia, the fourth-largest country in population in the world. What do they have, in terms of machine-tool capability? Not quite zilch, or quite zilch.

China has a deficit in machine-tool capability.

What is the strategic economic interest of the United States, Germany, and Japan, and so forth, if they’re using their heads? China has a problem. China does not need vast amounts of money-capital flowing from the United States into China. They don’t need it. What they need, is sufficient access to a machine-tool capability, and to developing their own machine-tool industry, to expanding it, to enable them to convert high rates of employment — the capital investment in new employment — into a sufficiently rapid rate of increase in productivity, so that this capital investment does not become a crushing force.

Therefore, we, who represent the pinnacle of European civilization, who have embedded in us, at least traditionally, this machine-tool capability: Our vital interest is to establish collaboration with the most populous section of the world, which is largely concentrated in East and South Asia, and to enable these people, who desperately need this kind of assistance, to import precisely what we should be exporting.

We should not be exporting shoes, we should not be exporting consumer quantities of this junk. We should be exporting what they really need, as sovereign nations, for a sovereign future. We should be developing a global partnership for the equipping of the entire planet with a machine-tool capability adequate to meet that need.

### **The Eurasian Land-Bridge program**

Let me just indicate some other things that go with that. The project to unify this, that I’ve proposed, my wife has

worked on, and others have worked on, is called the Eurasian Land-Bridge program. It's sometimes called the Silk Road program. We developed this over a number of stages during the 1970s and 1980s. In 1989, we launched it, in one form—my wife and I, and several others—launched this package, which became first known as the European Productive Triangle. And then later, beginning 1992, my wife negotiated, or had discussions with people in China, on this policy. And this was based on looking at some of the problems in the former Soviet Union, and looking at China, and saying, "Here is a common interest to develop the undeveloped and underutilized great area of Central Asia, which can only be done by this kind of method. And this is something which is in the common interest of China, of Europe, of the former Soviet Union, as well as the United States. So, therefore, we should make this process, which connects the largest parts of the world population to industrial development, and takes the largest area of undeveloped area, outside of Africa, and converts that into an area of growth, of global growth."

Now, what's needed, is several things, changes.

We need high-speed transportation. We're talking about thousands of miles. You're talking about the U.S. transcontinental railroad system, as it was understood by Lincoln, developed on a Eurasian scale, involving not a few million people, tens of millions of people; but, we're talking about *billions* of people. We're talking about the greatest growth on this planet for the next century, if we do it right.

This means new transportation systems, such as high-speed magnetic-levitation rail systems, instead of friction rail systems. This means tremendous amounts of power. We have it: high-temperature nuclear reactors of a new type, the HTR type, which are being mass-produced, or serially produced, in China, and which could be serially produced—of German design—which can be serially produced in other countries. You can find the nuclear energy.

We need vast water management. This area is technically water-scarce. We can solve some of the problems by water management. We also are going to have to change the ecology of the planet. We're going to have to desalinate vast masses of seawater in coastal areas, and save the upriver rainfall for the upriver needs. We're going to have to pipe mined freshwater—mined from oceans, as well as managed from rivers—into areas which are deserts, like the great deserts of Central Asia. We're going to have to do the same thing with Africa. And, that's what's needed.

These are great projects which, in terms of their economic impact, are equivalent to a mobilization for general warfare, in which you have the economic benefits, which we are accustomed to having, from technology and otherwise, from large-scale mobilization for general warfare. We are going to have to transform, increase our own ability as machine-tool powers. We're going to have to revolutionize our educational systems, to become science-oriented again. We're going to have to develop machine-tool capabilities in countries that

need it, in partnership with us.

There's going to be a need for food. There are various ways we can meet the need for food in Asia. The great way to meet that need, is Africa. *Africa is at present the greatest potential food-grower on this planet.* That is, it has the greatest area, which is designated operational agricultural land, which, if suitably developed, could very readily become a great surplus food producer.

If you develop a transportation system of this type, and link the so-called Silk Road, or Land-Bridge system, through Egypt, into a rail link in Africa, which we could build for them—We don't have to charge them anything. The benefits are so great, just give it to them. They don't have any money, so give it to them. Because the benefits, the payoff is tremendous. Once they have that kind of system, then the food-growing potential of Africa becomes tremendous, and that becomes a basis for rebuilding Africa, and giving it that initial start, that kick-start it needs to enter efficiently and fully into modern society.

So, we have before us, two alternatives. We have, on the one hand, the prospect, if we don't do what we have to do, of a New Dark Age descending upon all of mankind, a Dark Age whose best paradigm, for purposes of comparison, is the Dark Age that struck Central Europe with the collapse of the Lombard banking system in the middle of the Fourteenth Century. And that can happen planet-wide, which would mean about two generations or so of New Dark Age throughout this planet, with the world's population perhaps collapsing to levels of the several hundred million which was the world population level during the Fourteenth Century. That's a likely prospect.

On the other hand, if we cooperate with these countries of Asia, to create a just new world economic order on the ruins of a bankrupt system, and engage in great enterprises of the type which we've conducted before, to develop Eurasia, and to bring justice to Africa at last; if we do these things, then the Twenty-First Century can be the brightest century of human existence. Because, by these means, by bringing people into this process, we have the opportunity to establish as universal, a principle which *is* universal: the principle that all persons, man and woman, are each made in the image of God, and must be afforded a condition of life in society, an opportunity which is consistent with a being of such qualities, and to develop and perfect our political systems, to bring them into accord with that objective.

This next century can be the most glorious in the existence of mankind to date, or, it can be the most awful. The decision lies now with us in 1998: Can we summon the leaders, and the leadership, to do what many people, still, at this moment, would consider unthinkable? To maximize the risk, rather than spreading and minimizing it? And, by maximizing the risk, as the great commanders in warfare, to win the war, whereas those who minimize the risk are sure to lose it.

Thank you.

## Russia is Eurasia's keystone economy

by Lyndon H. LaRouche, Jr.

March 15, 1998

The world is waiting for the outcome of the twenty-two nation, Washington (Willard Group) conference on international financial and monetary matters now scheduled for April 16. All rational participants in the preparation and conduct of that conference should agree, that there are three leading topics of interrelated financial, monetary, and economic policy-shaping, topics which must be considered as crucial for a true solution to that global, systemic crisis, the which has pushed the world to the present brink of a threatened, sudden plunge into a global new dark age.

1. The fact that the present crisis is *global and systemic*, rather than *regional* or *cyclical*, must be acknowledged. This acknowledgement is the required premise for any rational discussion to follow. Within these bounds, those recent decades' institutionalized changes in policy, which are responsible for a three-decades build-up of the present crisis, especially since August 1971, must be identified, and entirely removed. Nothing less than radical excision of those institutionalized practices will suffice.

2. The present, fatally ill, global financial and monetary system, must be radically reorganized. This must be done through the concerted actions of a key initiating group of governments. It must be done in the manner of a reorganization in bankruptcy, conducted under the authority of sovereign governments. The acceptable model for the reorganized international monetary-financial system, is the incontestably superior, successful functioning of the old Bretton Woods system of the pre-

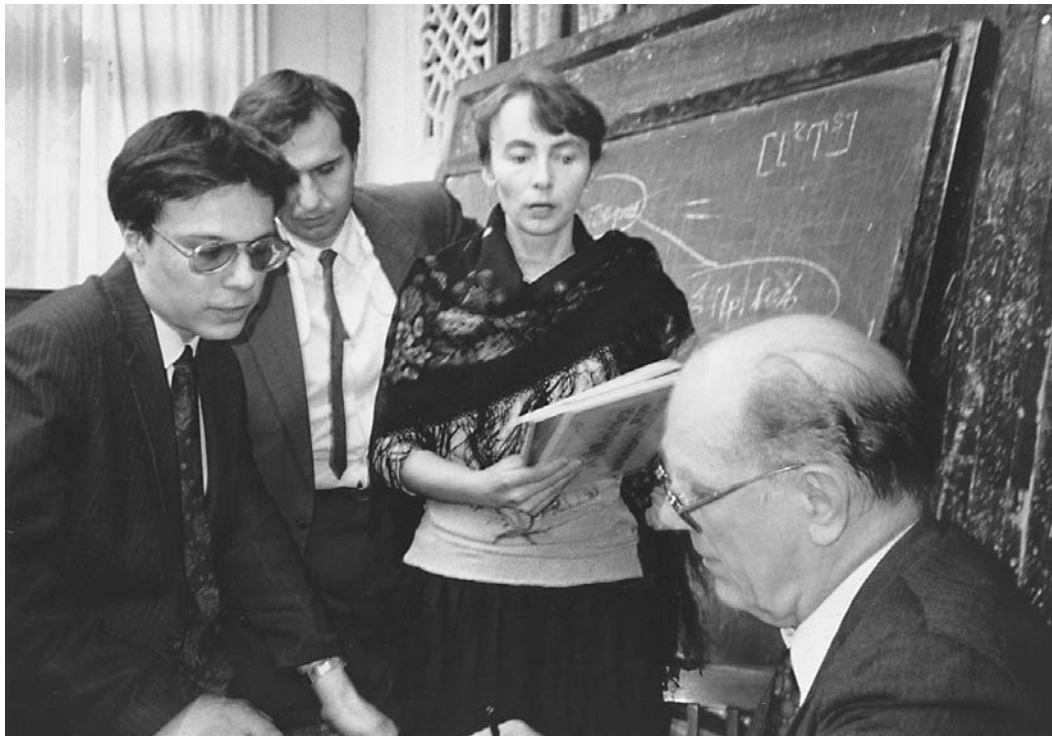
1959 1950s, over anything existing since those axiomatic changes in direction of policy-shaping, which were introduced by the U.K., U.S.A., et al., during 1966-1972.

The required measures include: a) Periodically fixed exchange-values of national currencies; b) limited convertibilities, as may be required; c) exchange controls; capital controls; d) fostering of necessary protectionist measures in tariffs and trade regulations; and e) outlawing of the creation of markets which conduct financial speculation against targetted currencies.<sup>1</sup>

3. As measured in physical, instead of the usual monetary terms, the world's economy is presently functioning at levels of "negative free energy" which are presently far below a break-even point. The current levels of net physical output are insufficient to prevent the existing populations and economies from continuing to collapse into a spiral of accelerating, general physical-economic contraction and ultimate physical collapse. Unless this shortfall in per-capita physical-economic output is reversed and soon eliminated, no financial and monetary system, however otherwise sound in design, could function: no mere medication could save a man who is being starved to death. There is no financial and monetary system which could possibly succeed, unless it were accompanied by a general program of forced-draft physical-economic recovery, a program which must rapidly approach and reach the levels of sustain-

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1. I.e., as a criminal act tantamount to complicity in the counterfeiting of the legal tender of a sovereign state.



*Lyndon LaRouche talks with participants in an April 1994 seminar at the Russian Academy of Sciences. LaRouche's discussions with Russian economists came about largely through the circulation of a Russian edition of his 1984 introductory university-level textbook in the science of physical economy.*

able, positive “free energy” ratios.<sup>2</sup> This means a recovery analogous in important respects to the Franklin Delano Roosevelt recovery in the U.S.A., is needed on a global scale.

There is an obvious objection to be expected from most critics. The customary objection will be, that such a sudden and radical approach is politically impossible. Perhaps those critics are right. Perhaps, it will prove impossible to find a significant number of governments willing to push through such radical measures in a short-term period. If those critics are right on that point, then the civilization will not live out the present century in its present form. If those critics are right, then the first generations of the coming century will be a planet-wide new dark age, a catastrophe like that which Europe experienced during the middle of the Fourteenth Century, but, this time, on a planet-wide scale. I would therefore respond to such critics with the following impassioned recommendation: let those political leaders who lack the will to carry out the measures I have proposed, get out of the way, and pass the authority to act to those among us who are willing and able to enact these measures, and do so suddenly.

The immediate future of this civilization, if it is to have

2. Ratio of physical-economic “free energy” to “energy of the system,” under the condition that the ratio of “free energy” to “energy of the system” must be positive, and not decline secularly, despite the fact that maintaining this ratio requires an increase in the relative “energy of the system,” the latter both per capita and per square kilometer of the Earth’s surface.

an immediate future, lies in the hands of those who are willing to act with pungency and force, along the lines I have indicated. That said, let us be optimists. Let us push the voices of those useless critics out of our minds, and concentrate on the actions which must be taken to avert the catastrophic economic collapse which now threatens to crush us all in the near future.

All rational discussion of these matters depends upon a clear understanding of the following point. The essential moral responsibility of the participants in those forthcoming, and related proceedings, is their obligation to recognize, that the mere fact that this is a global *systemic* crisis, rather than either a merely regional crisis, or merely a global cyclical crisis, is sufficient, crucial, proof-of-principle evidence, that the causes for this crisis are the fundamental errors of judgment and practice embedded in those axiomatic changes in official and other thinking, about the subjects of economic, financial, and monetary policy, which have dominated international policy-shaping during approximately thirty years to date. These are those axiomatic changes first introduced during 1966-1972.

The discussion must contrast the generally downward trends of the 1966-1997 interval, with the upward trends predominant during the great post-war recovery period of 1946-1966. In face of that evidence, the notion that the present international system of “free trade,” “floating exchange-rates,” and “globalization,” could be saved by a few added reforms, must be regarded as a wishful delusion common to those who are not yet prepared to face the reality which already grips this planet.

Those present financial and monetary policies of a floating exchange-rate system, are not institutions to be rescued; they are the disease to be expunged. Unless those policies are radically excised, the present economies, and nations will not outlive the passing of the present century.

This is true for the United States. It is true for the world as a whole. It is most emphatically the critical state of affairs now crushing Russia. In the context of such a discussion, Russia's distinguished young economist and statesman, Dr. Sergei Glazyev, has some important things of crucial strategic relevance to say concerning Russia's role in such a global turnabout. Thus, we publish the English translation of one of his more important, and recent studies here. To situate his study of the present Russia situation within its proper global context, his piece is prefaced by the present set of remarks.

As to Dr. Sergei Glazyev himself, he is generally recognized in Russia as a leading thinker among the younger generation of economists. To our personal knowledge, he reflects a certain spectrum of views, concerning the increasingly imperilled, increasingly desperate, recent and current state of Russia's economy. This spectrum of views, represents the most respected figures of the nation's scientific community. He also supplies a unique, and, as the accompanying paper shows, a commendably energetic view, on both the underlying characteristics of the situation, and what he identifies as uniquely required remedial measures to be undertaken, and that very soon, within Russia itself. His most urgent practical recommendations, as we may observe in this instance, are so compelling, by their combined nature and competence, that no rational person should consider his proposed key remedies as subjects for dilution by today's customary diplomatic (i.e., irrational) form of political compromise.

This view of Russia must be considered in light of a relevant political difficulty to be overcome inside the U.S.A. itself. In the United States, and other nations besides, a three decades-long process of cultural decay, in education and popular behavior, has fostered a situation in which many younger members of the U.S. Congress, for example, exhibit a kind of cultural dementia, a pathological state of mind, which is sometimes described, euphemistically, as "a loss of institutional memory."<sup>3</sup> Excepting those who wish the Soviet Union

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3. The validated principles of Classical art and statecraft, like the validated principles of physical science, are transmitted, as knowledge, from one generation to its successor, solely by one means. In a competent education in physical science, the student who merely learns to repeat the formulations from the textbook or classroom lecture, as though it were some arbitrary religious dogma, should be awarded a richly deserved failing grade. The student must relive the mental experience of reenacting the original cognitive act of discovery and validation of that principle, this within the sovereign precincts of his, or her own cognitive processes. The transmission of culture by means of such Classical-humanist methods of cognitive reenactment of discoveries of principle, is the active principle of history and the historical method. This applies to art and political knowledge, in exactly the same way it applies in the realm of physical principles. No institution, or person, which evades that historical method of shaping judgment, is competent either to

still existed, but only that they might have a more plausible hate-object to give strategic focus to their political rant, there appears to be, especially among the young Republican representatives, a lack of any recognition of the present and future relevance of the nations which, until less than a decade ago, constituted the second most powerful military force on this planet. Such folk are not merely ignorant of history, they are militantly devoted to refusing to learn any lessons from it. Thus, for many among these unfortunates, Russia is simply not on the agenda.

Contrary to Francis Fukuyama, in reality, history did not end in 1989-1992.<sup>4</sup> The forces which shaped the Russia of the Soviet system, and Russia's power in Eighteenth and Nineteenth Centuries' Europe earlier, still exist, and that in presently ferocious ferment, although in a new form, and in a new situation.

In fact, the present strategic significance of Russia is threefold. It is a major nation of the world, in a terrible crisis, headed toward a threatened internal explosion, which, if it occurs, will have terrifying, chain-reaction effects throughout the planet. Secondly, it is a crucial part of continental Europe, a crucial part of the opportunities upon which the future of the western portion of continental Europe depends. Thirdly, it is the keystone nation of Eurasia today. It is that third aspect of Russia's role, which is to be included as a matter of leading relevance for the deliberations of the twenty-two nations invited to the Willard conference called by U.S. Treasury Secretary Robert Rubin.

### Where Russia is situated globally

Simply, the majority of the world's population lives in the combined area of East, Southeast, and South Asia, a collation of nation-states pivoted on the two great keystone nations of Asia, China and India. Already, as a result of the self-inflicted decline of the economies of the Americas and western Europe, during the recent thirty-odd years of downward shifts in policy-shaping axioms, the center of gravity of world economy has shifted from the trans-Atlantic crossing, to the Pacific connections between the United States, on the one side of that great ocean, and China and Japan, on the other.<sup>5</sup> Although

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function as an official of state, or even competent to cast a vote. Correspondingly, to deny the relevant quality of education in this historical method to any young person, is a crime against humanity, a denial of that individual of his, or her most essential rights as a human being.

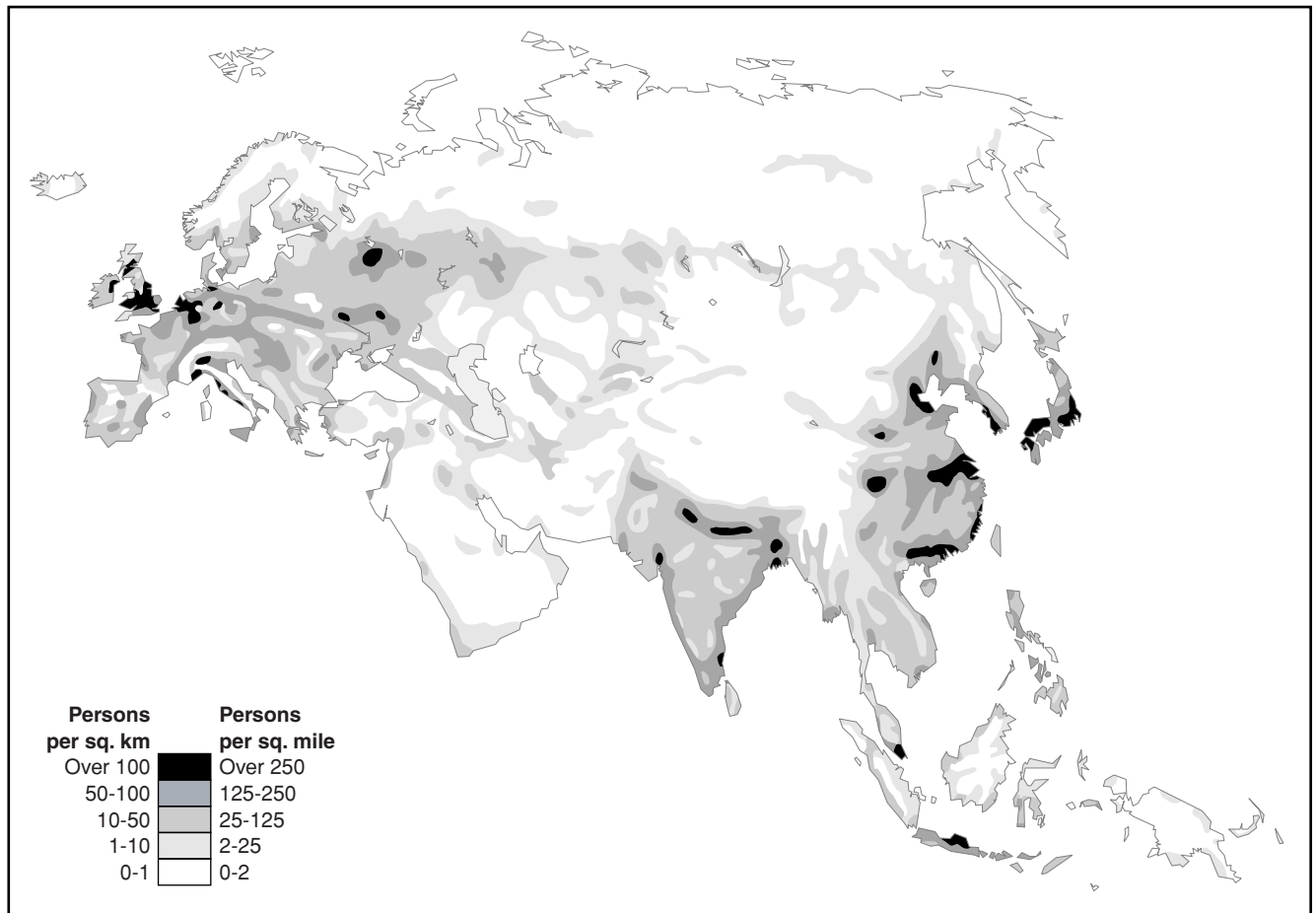
4. Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992).

5. For the longer term, such a shift was historically inevitable. In rough terms of approximation, since all persons are made equally in the image of the Creator, by virtue of the universal capacity of individual human cognitive potential, population as such must ultimately determine the global "center of gravity" of physical-economic and related activity. This is not in the nature of a simple, algebraic calculation of a center of "mass." The method is that which commonly underlies the notion of a multiply-connected physical-space-time manifold, as developed successively by such notables as Johannes Kepler, Gottfried Leibniz, Carl Gauss, and Bernhard Riemann. Long-range



FIGURE 1

**Population density in Eurasia, 1990**



western continental Europe figures significantly in this new strategic-economic pattern, especially France and Germany, the only possibility of a hopeful future for western continental Europe, is as an economic-strategic participant in a new economic-strategic polarity defined by combined political and economic relations between the Presidents of the U.S.A. and China.

Look at the map of Eurasia! Look at the concentrations of population on that map! [Figure 1] See the crucial strategic

economic forecasting, must emulate Gauss's uniquely original, successful approach to determining the orbit of the asteroid Ceres. Casting aside all mechanistic delusions, such as the popularized folly of presuming linearization in the extremely small, it is by discovering the characteristic form of absolutely non-linear "physical-space-time curvature" in the very small interval of observable action, that the entirety of the orbital pathway (e.g., the long-range economic outcome) must be adduced. In the actual case referenced, the shift of the economic "center of gravity," from the Atlantic to the Pacific crossing, occurred, not naturally, by means of catch-up by the nations of the so-called developing sector, but, rather, chiefly as a result of a self-induced degeneration of the economies of Europe and the Americas.

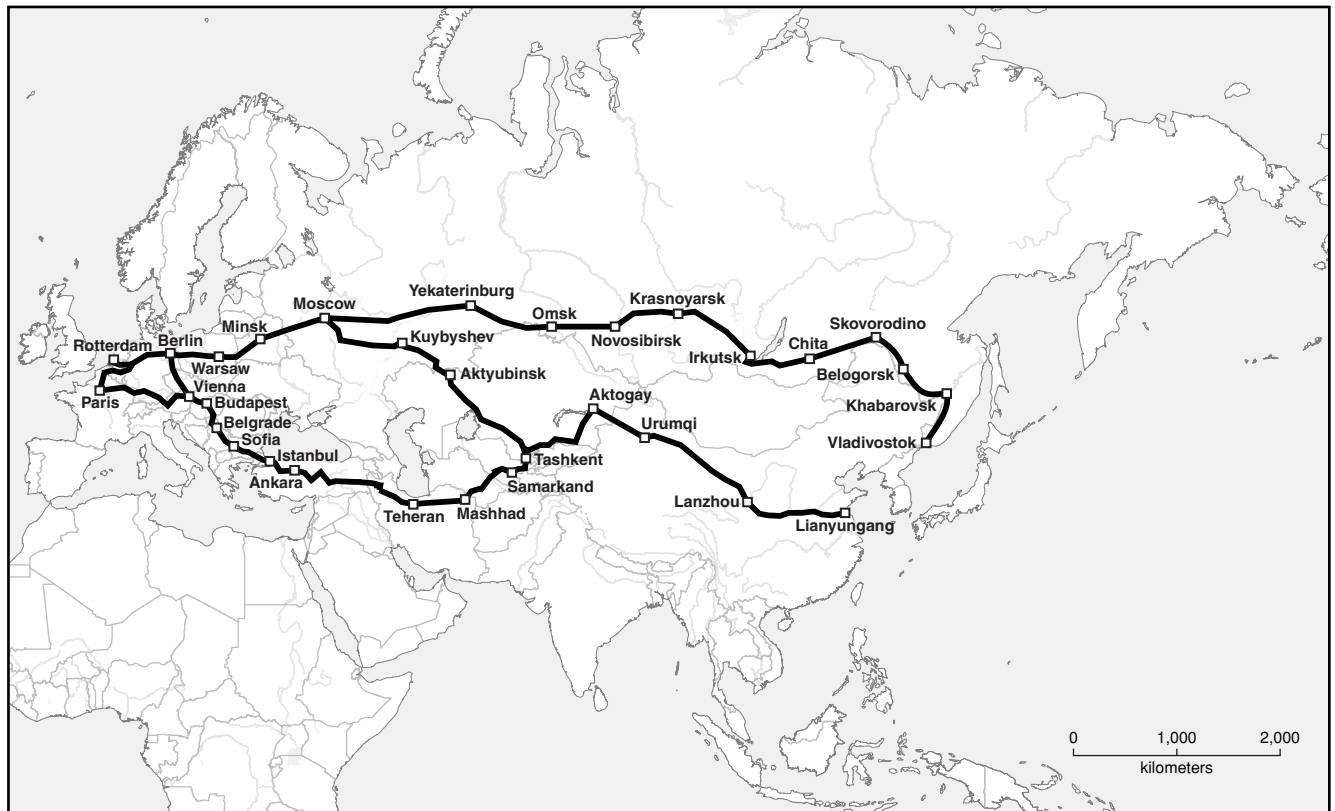
anomaly! Where is the population concentrated? Where is the economic activity concentrated? Where are the production of wealth and places of habitation concentrated? What of the vast inland area of the inland regions, such as the plateau of the sub-continent, inland China, or the expanses of Siberia and central Asia? Look at Russia in this light.

The stability of this entire Eurasia inland region, depends, immediately, on recognition of the almost desperate, strategic self-interest in cooperation, among the three keystone powers of Asia: China, India, and Russia. These three, relatively most weighty nations of the Eurasia heartland, must be cultivated as strategic partners of the United States, a partnership which must be centered, on the U.S. side, in the person of the U.S. President, and his Executive Branch.

Hopefully, in western Europe, Germany will, once again, play the crucial leading role in U.S. cooperation with its principal strategic partners of the middle to late Nineteenth Century: the Russia of Czar Alexander II, D. I. Mendeleyev and Sergei Witte; the Germany of the heirs of Schiller and von Humboldt, and of Emil Rathenau; and the U.S.'s friends in

FIGURE 2

**Currently existing main routes of the Eurasian Land-Bridge (simplified)**



East Asia. This was the great Eurasian railway land-bridge program, as first envisaged and proposed by Friedrich List, and set into motion by the personal initiatives of Henry C. Carey. This was the land-bridge program which the British Empire aborted through its sole leading, geopolitical motives and responsibility for World War I. This time, the program must be carried through.

The pivotal issue of Russia’s crucial participating role in this, is its crucial economic role in the successful development of the “land-bridge” corridors across the thinly populated, and presently greatly underdeveloped expanses of central Asia. [Figure 2] The task is not simply to lay track across the expanse from the Bohai region of China to the ports of Hamburg, Brest and Rotterdam. [Figure 3] The task, modelled upon the Carey-Lincoln success in the development of the U.S. railway land-bridge from the Atlantic to the Pacific, is to develop the railway right-of-way as a developmental corridor of approximately 100 kilometers in width, which becomes, rapidly, economically self-sustaining through each average 10,000 square kilometers along that route.<sup>6</sup> [Figure 4]

6. The principal writings of the present author and his collaborators on the subject of the Eurasia Land-Bridge, were published in Germany. In addition

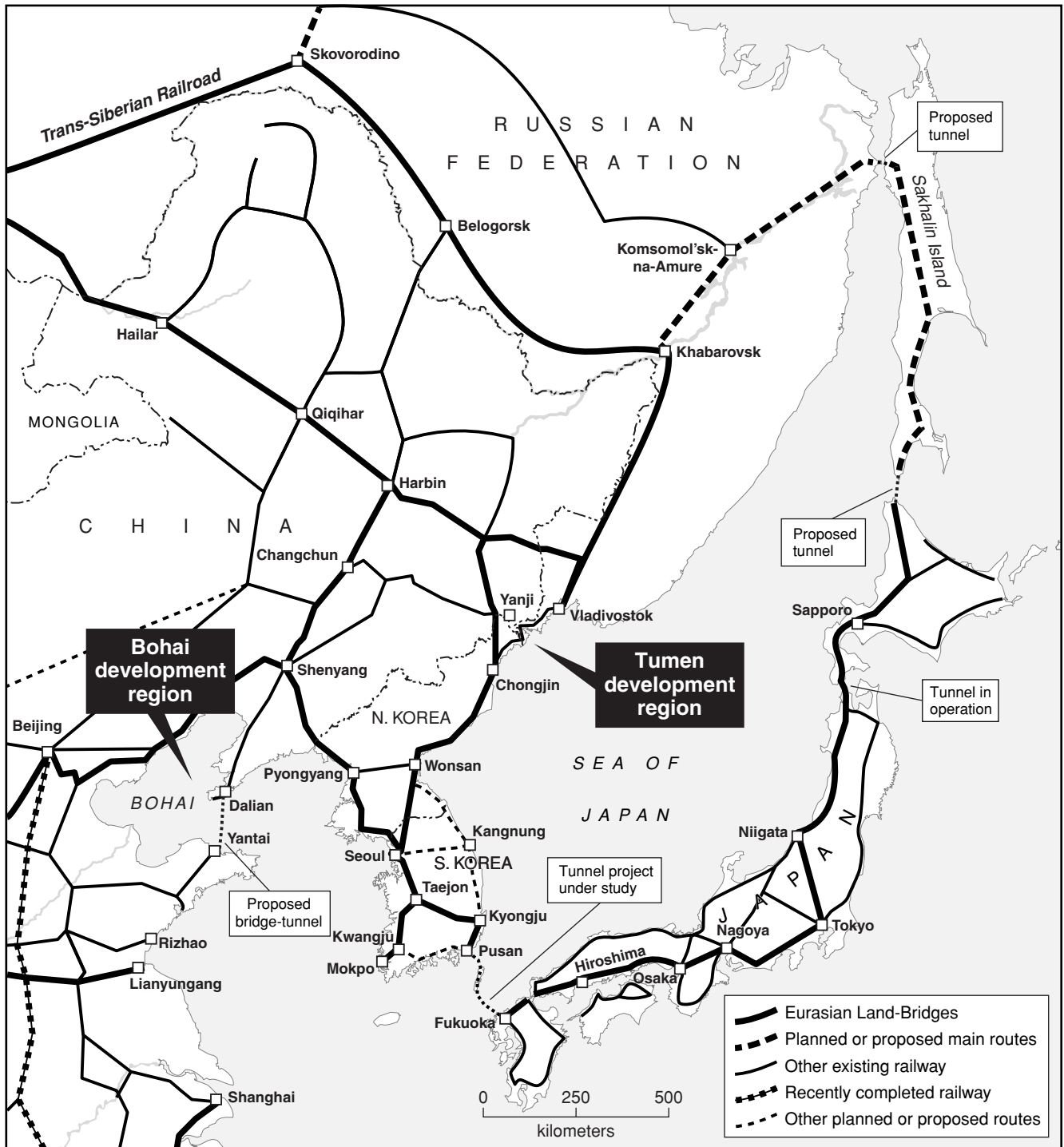
Three principal components are required for such development of such corridors:

1. The typical such transportation corridor is a route of what is in the process of becoming economically self-sustaining development. This requires large-scale infrastructure development in water-management and related land reclamation, transportation, and power. This must be accomplished through very large-scale infrastructural development programs, backed both by na-

to reports featured within periodicals, such as the weekly *Executive Intelligence Review*, the following German reports are most notable. *Das “produktive Dreieck” Paris-Berlin-Wien*, EIR GmbH, August 1990; *Der Osten Europas in den 90er Jahren*, EIR GmbH, December 1991; *Die eurasische Landbrücke*, EIR GmbH, November 1996 (released in English as *The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive for Worldwide Economic Development*, EIR, January 1997); *Die neue Industriegesellschaft: Maschinenbau, Mittelstand, Klassische Bildung*, EIR GmbH, June 1997; *Die Neue Seidenstrasse*, EIR GmbH, February 1998. The project, now best known as “The New Silk Road” project, was first projected by the present writer and his wife, Helga Zepp LaRouche, during November-December 1989. It was she and her collaborators in Germany, who steered the development of the design, and carried the project eastward, through Russia and Ukraine, into discussions with relevant circles in China.

FIGURE 3

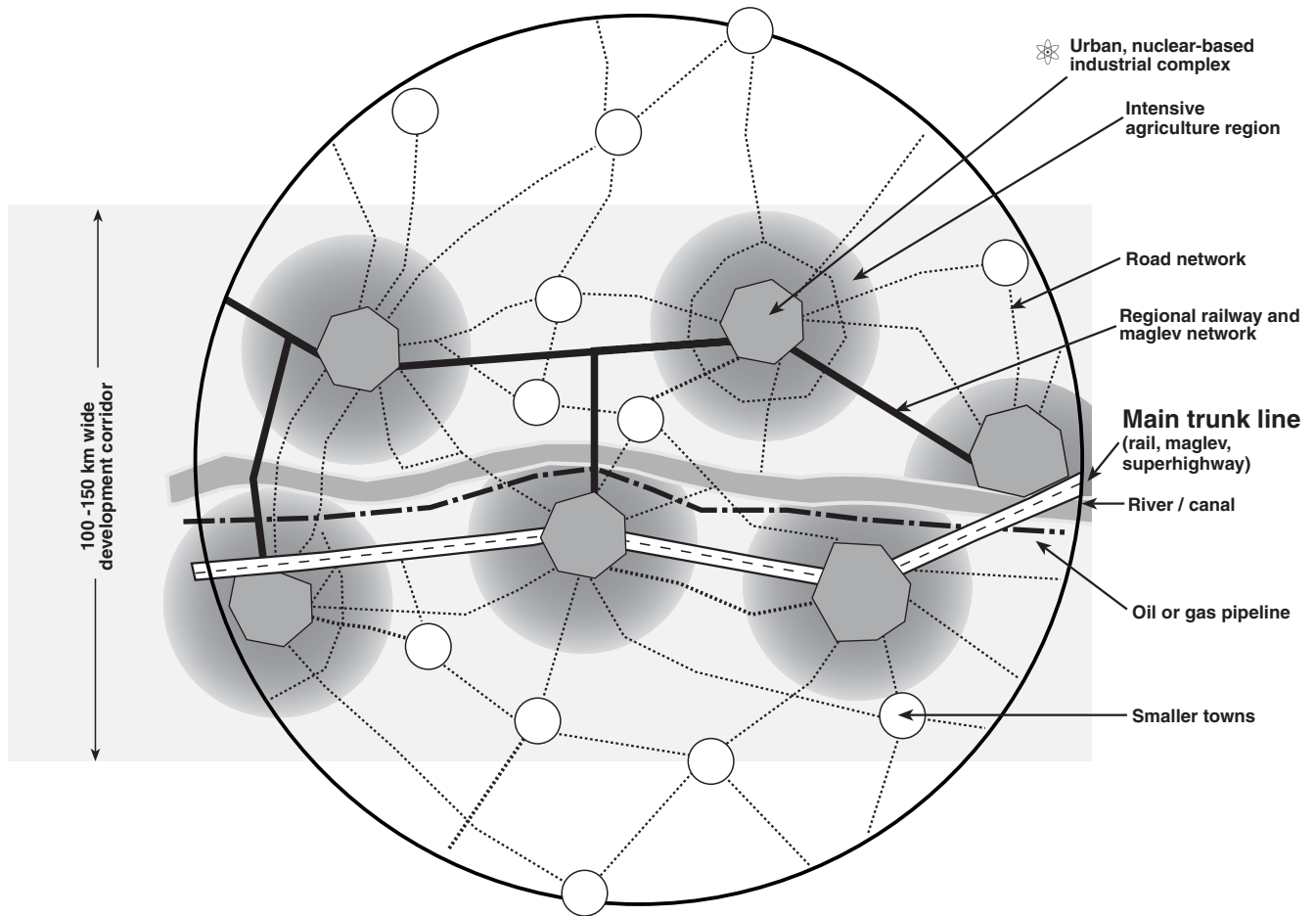
The Bohai and Tumen development regions in the context of the Eurasian Land-Bridge



The region around the Bohai coast, i.e., the four provinces of Shandong, Shaanxi, Hebei, and Liaoning, the major cities of Beijing and Tianjin, and a portion of Inner Mongolia, is potentially one of the richest in China. Although the region comprises only 12% of the land surface, about 20% of the Chinese population live there. And these 240 million people produce one-fourth of the total Chinese production. The Bohai coast is the center of China's heavy and machine-tool industry, and includes its second-largest oil and gas reserves, and third-largest chemical industry center. Moreover, the region is part of the northeast Asian economic zone, encompassing China, Japan, North and South Korea, and the Russian Far East. Plans exist to develop seven ports along this C-shaped coast. Central to this development strategy is to connect the peninsular provinces of Shandong and Liaoning by means of a 57-km bridge, cutting some 2,000 km from circumvention of the Bohai coast, which will act as an ideal connector between the northern European Land-Bridge through Russia and the southern Eurasian Land-Bridge through China. The project entails several bridges and a long tunnel; a railway bridging the expanse will connect Dalian, the main port of Liaoning, to Yantai in Shandong.

FIGURE 4

**Graphic representation of a 'development corridor'**



tions which are directly along the route, and other cooperating nations.

2. This can not succeed economically, without emphasis upon that which most of East, Southeast, and South Asia most want: adequate scale of modern machine-tool-design capability. Without high rates of infusion of technological innovation, which can not be supplied, except through an adequate scale and quality of development of the relevant machine-tool-design capabilities, such a project could not be economically self-sustaining. The three areas of the world which still muster a significant active machine-tool-design capability are Germany, the U.S.A., and Japan. However, in the relatively short term, the greatest single additional source of machine-tool-design capability whose potential might be activated, is the former Soviet scientific-military-industrial complex.

3. The most critical bottlenecks are lack of power and the need for water-management on a vast scale. Siberian water now flowing into the Arctic, is a critical component. Power can be supplied, chiefly, through high-temperature nuclear-fission reactors of the Jülich HTR or related types.<sup>7</sup> In both categories, Russia is crucial.

7. We have passed the point, at which the discussion of water-management can be limited to managing the flows from rainfall to the seas and oceans. We must supplement rainfall, increasingly, by high-energy-density modes of both desalination, and also reprocessing of waste water. Thus, the coastal regions of Eurasia, or Africa, for example, will become exporters of water "mined" by desalination, to water-scarce, adjoining, inland regions. The use of rights of way defined by rail or magnetic levitation transport, as conduits for piped delivery of water, natural gas, and nuclear-produced synthetic methane, in addition to trunk-lines of electrical power, should emerge now as an increasingly commonplace feature of the Eurasia, Africa, Australia, and West Coast U.S.A. landscape. The idea of taking water from the Colorado system, in the U.S.A., for use by seaside Los Angeles and its vicinity, is ecological lunacy run amok.

Russia and Ukraine, have presently, chiefly fallow, but reactivatable capabilities for becoming suppliers of relevant energy technologies.

There must be no continued silliness about the role of London in these undertakings. As typified by recent statements of London's asset George Soros [see box], and the perennial foe of Asia's development, Sir Leon Brittan [see box], British imperial policy today has not changed axiomatically on these issues, from the Nineteenth Century of Palmerston and that evil Prince of Wales who became Edward VII. If Britain cooperates, so much the better; however, Britain must not be permitted to exert any approximation of veto power respecting any of the measures we have indicated, or the measures proposed by Dr. Glazyev in the accompanying piece.

This will work, only if such remedial action arises from a leading role by the U.S. President, and if it has the character of a joint initiative by a group of sovereign nations, all rallied as partners of a coalition built around the U.S.A., China, and, hopefully, India, Russia, hopefully Japan, and, hopefully, such continental western European nations as Germany. That coalition must assume responsibility for the immediate and more distant future of this planet. Others, whether inclined to do so, or not, must follow, in their own vital interests in enjoying a global economic recovery.

Russia must be viewed as positioned to supply a crucial

contributing role in this endeavor. That said, I devote the remainder of these prefatory remarks to some very important points about Russia's role, and about aspects of Dr. Glazyev's argument, which most other strategic analysts would almost certainly overlook.

### States with socialist constitutions

As the reader comes to read Dr. Glazyev's accompanying piece, that reader must take into account the following background.

China describes itself today as a state with a socialist constitution, but one conducting a reform with "Chinese characteristics." China must be, variously, compared, or contrasted, thus, to the leading nations of the former Soviet Union, and, to a large degree, also the former Comecon more broadly. All among those are to be seen, culturally, as emerging from "states with socialist constitutions." The experience of almost four generations, is not expunged from the populations of the former Soviet Union so quickly, so easily. The same may be said, if with less emphasis, of the two generations of populations of Eastern Europe which lived under 1946-1989 Soviet hegemony. This comparison is the more strongly to be recommended, in light of the fact, that, in this region of Europe, the physical-economic conditions of family life for the population as a whole, have been much worse, much more insecure, under post-

## Soros on the new British Empire

British-owned speculator George Soros was interviewed by Israel's Shimon Peres, in the Italian magazine *Liberal* of March 12. Among the topics of discussion was monetary reform, and Soros called for a "new Bretton Woods"—making it clear that what he has in mind is an instrument of British-dominated world government, modelled on the British Empire itself.

"On an international scale," Soros says, "we need some global regulating institution, in the Bretton Woods spirit. . . . If we do not create institutions aimed at preserving stability of international markets as well, then we will go towards a crash.

"The global capitalist system is based on a belief, on the false assumption that, if all this activity of private capital were left alone, the whole system would tend to stability. As the Asian crisis demonstrates, this is simply false. It is not unstable because of some external shock: It is intrinsically unstable." Soros then differentiates between "private technocrats" who, by pursuing individual profit,

destabilize the system, and "public technocrats," such as central bankers, who play a regulating, stabilizing function. He calls for "the idea of a global central bank or a control function given to 'stability technocrats.'" But in addition to this, those countries that have not done it, must open to democracy." Soros says, however, that his idea "could be implemented only after a crash."

"Left alone," Soros affirms, "states do not maintain peace. We need an international organization aimed at keeping peace. *It can be an empire, or a balance of powers. Or it can be some sort of international institution.* Current international institutions . . . cannot succeed because they are formed by states, and therefore they are instruments of state interests. During the Cold War there was a balance of powers. Today America is the only superpower left, but it does not have the capacity to be the world policeman. In the 19th century, we had a global capitalist system as well, and *it was Great Britain, representing the imperial power, that maintained stability*, until it entered into a conflict with the other imperial powers (Prussia, the Austro-Hungarian Empire, the Ottoman Empire) and peace was destroyed. Currently, we have no system of peace. We do not have balance of powers, and no imperial power either" (emphasis added).

Communist political conditions, than under the former socialist systems.

Dr. Glazyev himself is chiefly a product of an education supplied by the economics elite of an older generation, as only typified by the case of his former teacher, Academician Dmitri Semyonovich Lvov of the Central Economic-Mathematical Institute (CEMI).<sup>8</sup> The present writer emphasizes this, partly, at least, on the basis of discussions with Academician Lvov, Dr. Glazyev, and others of that stratum. It is relevant for the reader to know, that such discussions came about largely through the circulation of a Russian edition of the writer's own 1984 introductory university-level textbook in the science of physical economy, a textbook which also circulated among relevant circles in Ukraine.<sup>9</sup>

It was inevitable, that among the patriots of those countries which had been states with socialist constitutions, the

8. See D. Lvov, "Toward a Scientific Grounding for Economic Reforms in Russia," *Executive Intelligence Review*, August 25, 1995.

9. In fitting irony, a secondary factor in the writer's reception in post-Gorbachev Russia was the role of the writer in designing what President Reagan had announced on March 23, 1983 as the *Strategic Defense Initiative (SDI)*. Not only had the President's adoption of SDI occurred as a by-product of this writer's back-channel discussions, conducted on U.S. behalf, with a Soviet representative; the writer's role had become a subject of extraordinary attention in the Soviet press and leading circles during the 1983-1986 interval. Thus, the writer's influence arrived in post-Gorbachev Russia with certain historic predicates attached.

science of physical economy, for which the present writer is currently the world's leading exponent, would be the preferred alternative to the wild-eyed monetarism of such Mont Pelerin Society's devotees and political hucksters as Prime Minister Margaret Thatcher, the Heritage Foundation, *The Wall Street Journal*, Jeffrey Sachs, exemplary modern English privateer George Soros, and the vandal horde of International Monetary Fund bureaucrats. Inside Russia, the choice is between the imported liberalism of those "chop-shop entrepreneurs" who stuff their own purse with money from foreign sales of national assets at stolen-goods prices, and Russians of more patriotic inclinations, notably those whose overriding commitment, as professionals, is to filling the barren, physical-economic market-baskets of their perilously hungered countrymen. Dr. Glazyev typifies the latter category.

On this account, there is a strategically crucial special relationship between present-day Russia and present-day China. Under the leadership of the recently deceased, venerable Deng Xiaoping, China has emerged as the only success-story among all nations from the former array of states with socialist constitutions. For this China, what the Soviet system, under Andropov and Gorbachev, did to itself, is the nightmare of the century!

The same observation must be made concerning the results of the recent decade's so-called "reforms," for every nation of the former Comecon, and also London's principal geopolitical asset in today's Balkan crisis, the rump state

## Sir Leon Brittan on the Eurasian Land-Bridge

*Sir Leon Brittan, vice president of the European Commission, gave the speech excerpted here at the Beijing International Symposium on Economic Development of the Regions Along the New Euro-Asia Continental Bridge, on May 7, 1996.*

... To put it bluntly, demand to use a land-bridge between Europe and Asia will only be high if certain political conditions are met: There must be peace along the land-bridge, there must be stability and a prospect of continued peace, there must be sound independent economic structures that allow transporters and economic operators to get on with their business free of the fear of arbitrary or discriminatory government attention. Only if these conditions are met will foreseeable demand for use of a bridge grow to a level where the necessary capital can be attracted.

On this score, the picture so far is mixed. . . .

Chinese negotiations for the WTO are not, I fear, a subject for optimism today. Very few observers believe that the prospects of an early breakthrough in talks are great. I continue to believe that China wants to be in the WTO as much as we want China to be a member. But WTO is a rules-based organization, and we cannot engineer China membership on false terms. There is good will on both sides, but we must look carefully at the details of the deal. What the WTO members need from a new applicant is a clear indication of the applicant's commitment to accept the rules of the WTO, all the rules. . . .

Rules are needed and are difficult to draw up where many countries are involved and vested interests are great. For a land-bridge to work, the rules must be in place before the prospectus is issued. And among those rules must be the most liberal rules possible for access by transport operators to a land-bridge network, and a guarantee that those willing to operate over the network will have pay a reasonable but not an exorbitant fee to those who run the network, particularly because those running the network are likely to be the commercial companies that build the network rather than the governments of the states along the line. . . .

known presently as Yugoslavia. It is the pattern of rampant political-economic suicide, among virtually all states formerly with socialist constitutions, which China's leaders are passionately determined not to repeat. That sense of horror, experienced in Beijing, is also felt among those informed patriots of related nations, the which have examined the pattern of consistently disastrous results of the so-called reforms imposed upon Russia (and other nations of eastern Europe) during the course of the recent decade. The recent years' pattern of return of former Communist apparatus circles to power in elections throughout formerly Communist eastern Europe, attests to this pattern and the political reactions to it.

In fact, what the patriots of these nations desire, whether they recognize that fact yet, or not, is what used to be recognized as the anti-British, "American System of political-economy."

This was already the case among some leading Bolsheviks of the early 1920s, who sought to learn American agro-industrial methods, as opposed to what they recognized as inferior British and French models, for guidance in building up the Soviet economy. The expression of "American methods" which they admired, was the form of machine-tool-centered development, of large-scale basic economic infrastructure and high rates of increase of productivity through investment in scientific and technological progress. The model of industrial economy which spread throughout much of the world, including Germany, Czarist Russia, Japan, and others, during the last decades of the Nineteenth Century, was the 1861-1876 Lincoln-Carey model featured at the 1876 Philadelphia Centennial Exposition. This form of the Leibniz-based, Franklin-referenced "American System" of U.S. Treasury Secretary Alexander Hamilton, the two Careys, and Friedrich List, is a form of political-economy based upon Leibniz's principles of physical economy, incorporating the Leibnizian conception of the machine-tool-design industry, the which was developed, and also introduced to practice by Lazare Carnot.<sup>10</sup>

That is the result implicitly desired by the patriots of Russia and China, alike, albeit, in the second instance, "with Chinese characteristics," and, in the first instance, "Russian characteristics." From this vantage-point, Dr. Glazyev's arguments, in the accompanying report, are better understood.

### However, an element of misunderstanding

There is, nonetheless, a significant error in certain among the assumptions which Dr. Glazyev expresses, if but as overtones, within the structure of his argument. The issue is identi-

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10. Through the Carnot-Monge model of machine-tool-design industry, transmitted to Commandant Sylvanus Thayer's U.S. West Point Military Academy, that method was employed by the 1861-76 Lincoln-Carey economic "crash program" to the effect, that by 1876 the U.S. had become not only the world's most powerful economy, but, the most advanced technologically, this by a large margin.

fied in the first among the appended notes. In the first paragraph of Note 1, we are informed, quite accurately:

"The author uses terminology from the so-called long-wave school of economic research, initiated by N.D. Kondratieff (1882 until his 1930s death in a Siberian prison camp), and continued by Harvard's Joseph Schumpeter (1882-1950) in his 1939 book, *Business Cycles*, and [by] others."<sup>11</sup>

Although the adoption of those sources as authorities is problematical, the present writer is happy to report that he has found no programmatic feature of Dr. Glazyev's report at hand, which need be corrected on this account. Nonetheless, the influence of the doctrines of Kondratieff et al. among relevant Russian academics is widespread, and the errors embedded in his "long wave" dogma do represent a significant, actively manifest source of misassessments of the strategic correlation of forces with which Russia must deal in the world at large. Since this influence is widespread among the most qualified relevant strata of Russian professionals, it is urgent that the nature of the problem be understood among the U.S.A.'s, and Russia's and other continental European professionals. For that, among other relevant reasons, the matter should be addressed here.

There are three summary, outstanding fallacies in Kondratieff's theory of "long waves:"

1. The empirical basis for Kondratieff's adducing a specific array of "long waves," represents an elementary fallacy of composition. He assumes, *petitio principii*, that the datings for his statistical curves are reflections of pulsations internal to the very long-wave economic process whose existence the statistics are represented as reflecting. In fact, they are not "economic waves" as such, but, rather, flotsam. They are reflections of conflicting interventions into the economic processes from outside them, from the domain of politics—and, often, geopolitics as such. Thus, he errs in treating as evidence of an adduced economic principle, effects which originate outside economically determined causes as such. To repeat the crucial point: these effects originate, not from within economic processes as such, but, rather, from the domain of political-strategic conflicts on a global scale. In short, on this specific account,

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11. "Others" includes, notably, Professor Wassily Leontieff, a Kondratieff student, who emigrated to the U.S.A., was based for an extended period at Harvard University, and played a key role in developing the U.S. Government's methods of national income and national product accounting. Leontieff, now based at New York University, has served as a key figure in a group of notable economists who have been supplying technical advice to relevant professional circles in Russia. Cf. Lyndon H. LaRouche, Jr.'s view of *Pragmatic Gradualism: Reform Strategy for Russia*: "More 'Nobel Lies,'" *Executive Intelligence Review*, May 21, 1996.



*Lyndon and Helga LaRouche meet in Moscow with Academician Dmitri Semyonovich Lvov (right) of the Central Economic Mathematical Institute in June 1995.*

Kondratieff commits the combined errors of *petitio principii*, fallacy of composition, and ahistoricity.

2. In a related, but distinct, second fallacy of composition, Kondratieff's dogma relies upon a misapprehension of politically determined "business cycles," in defining the shape of the pulsations within and among these business-cyclical movements wrongly, as he misdefines his statistical long waves: as originating within the realm of economic processes as such, rather than acknowledging the actual source, political processes which lie outside economics, but which do act upon decision-making in the economics domain.

3. Like Karl Marx and other successors to the combined neo-feudalist schools of the Physiocrats, of the Venetian school represented by J. Sismondi, and of the British East India Company's Haileybury School: the approach of Kondratieff and Schumpeter, ignores the axiomatic issue, of cognition as such, which underlies technology. On that same account, Marx et al. ignore the otherwise plain evidence of the social basis for those political determinations which actually govern the pulsations within the economic domain as such.

To appreciate Kondratieff's influence, we must recognize the circumstances from which the present influence of his "long waves" doctrine is originally dated. That occurred within the context of the "Soviet industrialization" debates within the Soviet Union's early through middle 1920s. We should recognize three distinct aspects to that influence.

First, on the positive side of his influence, Kondratieff's

argument complemented the warnings of economist and "Left Opposition" founder Evgeny Preobrazhensky, against the London-steered policies of N. Bukharin. These were the Bukharin policies which the historian familiar with that period must recognize, as ominous forerunners of some of the worst "macroeconomic" features of recent pro-monetarist reforms in Russia today.<sup>12</sup> In those specific historical circumstances, the economic-determinist implications of Kondratieff's argument, were assimilated into part of the charges thrown against the ahistorical, Viennese positivism of Bukharin's pro-monetarist policy. That implication of his influence during the mid-1920s, naturally tends to find expression in current Russian opposition to the neo-Bukharinist policies which Mont Pelerin Society ideologues of London, Washington, and the IMF have imposed upon the collapsing Soviet-Comecon system and its sequelae.<sup>13</sup>

12. Like the E. Preobrazhensky who reacted consistently, to support J. Stalin's industrialization program against "Right Oppositionist" N. Bukharin, Kondratieff latter disappeared into the anonymity of the purges of both former Bolshevik Left Opposition and Right Opposition, which gripped the mid-1930s Soviet society, following Hitler's consolidation of power in Germany.

13. These implications of the 1920s "Soviet industrialization debate," have a significant echo in informed Russian views on the roles of neo-Bukharinite elements of the Anglo-American intelligence community and trade-union organizations, in shaping U.S. foreign policy still today. A central reference is to the networks of the former, Bukharin-installed Secretary of the Communist Party U.S.A., Jay Lovestone, and to the network of both Communist International (CI) "Right Oppositionists" and others deeply embedded, still, among the present writer's political adversaries in both the official U.S. national-security apparatus, and in control of the international division of the AFL-CIO. This CI network based itself, under "Plantation" manager David Dubinsky, in the administrative apparatus of the International Ladies' Garment Workers' Union (ILGWU) (e.g., the industrial-engineering section under



In other leading respects, Kondratieff's argument shares two potentially fatal, axiomatic errors otherwise common to both Karl Marx himself, and the putative orthodox Marxists of the Twentieth Century's social-democratic and communist movements. The first of these two, which will be our concluding topic in these prefatory remarks on Dr. Glazyev's report, is, as we have indicated, a mechanistic, ahistorical view of the origins of modern European and U.S. business cycles. The second, upon which we shall focus attention first, is the typically Marxist misconception of the nature and functional characteristics of technological progress, a common, axiomatic blunder of, not only the British liberal economists and Austro-Hungarian positivists, but also both Marx and the so-called "orthodox Marxists."

### Marx's blunder on technology

Among socialist economists, the problem of dealing with Kondratieff's work, follows from Marx's confessed blunder, of ignoring the "technological composition of capitals." In "orthodox" socialist circles, the relevant commonplace blunder, was typical of the unpleasant side-effects of philosophical materialism: the search for a relatively mechanistic explanation of scientific discovery, an explanation which did not, for example, upset F. Engels' pathetic view, borrowed from Darwin and Huxley, of the transition from higher ape to man.<sup>14</sup>

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William Gomberg), and was integrated into the Office of Strategic Services (OSS) during World War II. This "Right Opposition's" entry into the combined Soviet, U.S.A., and British intelligence services, was effected through the 1933-1934 assimilation of the Bukharin-Brandler-Thalheimer-Lovestone "Right Opposition's" creation known as the International Rescue Committee (IRC). During this period, IRC agents were self-esteemed Soviet agents, coordinated by Soviet intelligence networks, but also reporting directly to such western officials as the U.S. Ambassador in Berlin. This outgrowth of the Communist International's Right Opposition network, includes the hard core of the nominally Jewish-American neo-conservative pack, and is otherwise typified by that London-directed elements of the U.S. intelligence community long associated with Lovestone's personal asset, the scurrilous curmudgeon Leo Cherne. It must be added, as an urgent qualification, that, from the mid-1930s, until the end of his tormented existence, Cherne was always really a lackey (in the strictest sense of that term) of wealthy Anglophile financier-oligarchical families centered in Wall Street. However, as the exemplary family case-history of London's Joe Godson and his son, Vice-President George Bush's 1980s asset Roy Godson, attests in most indelible terms, the Lovestone-Cherne network was always under ultimate control of British intelligence. It should be noted that a significant number of persons and families of nominally "Trotskyist" pedigrees, bearing names such as Wohlstetter, were recruited to the Lovestone-Cherne cabal of today's neo-conservatives.

14. On this account, F. Engels' hilariously pathetic ruminations on the subject of the "opposable thumb," are a throwback to such typically empiricist silliness, as that of Bernard Mandeville's *The Fable of the Bees*, neo-feudalist François Quesnay's *laissez-faire*, both Adam Smith's *Theory of the Moral Sentiments* and his plagiarism of *laissez-faire* as "free trade," and Jeremy Bentham's *Introduction to the Principles of Morals and Legislation*. A still more radical, and sillier version of the same argument has been offered by two devotees of Bertrand Russell: Professor Norbert Wiener, in his "information theory," and John von Neumann, in his philosophically infantile "systems analysis" and "theory of the brain." In acknowledgment of Wiener's misuse

Also notable, is the case of Lenin's pre-World War I treatment of the pathetic followers of Ernst Mach, such as Moscow's Vienna-trained N. Bukharin, Lenin's *Empirio-Criticism*. This is a factional piece by Lenin, somewhat famous among specialists, in which he affirms the reductionist world view of the philosophical materialist, against the also-reductionist virtual reality of the radical empiricists (i.e., logical postivists) around Mach.<sup>15</sup>

Since the following point has been amply referenced in earlier locations, it is sufficient merely to identify its highlights here.

The ontological presumption underlying "long wave" doctrine, is the relatively simplistic notion of the unfolding of the impact of a single, relatively fixed technology, or family of such technologies. This mislocates the matter entirely, attributing to a non-living, "material" agency, a technology as such, that quality which, in reality, lies only in the living individual human mind's inexhaustible ability to generate new, superior technologies. As Heraclitus would have rebuked Kondratieff, "In this universe, nothing exists but change." So, Socrates, in an aside within the relevant Plato dialogue, pointed out the folly underlying the desperate, repeated incompetence of the Eleatic reductionist of that dialogue, Parmenides. Parmenides overlooked the ontological implications of an existent, superseding, subsuming principle of *change*.

The ontologically primary reality of human existence, is the willfully ordered increase (*change*) of the potential relative population-density of the human species, through willfully ordered successive, revolutionary breakthroughs in practiced science and technology. It is that active, efficient principle of *change*, which is supreme in economic processes; it is that principle, by which technologies are superseded, which is the determining characteristic of physical-economic processes, rather than any fixed array of types of technologies.

To approach economies effectively, even in a rule-of-thumb manner, one's rules of thumb must be informed by

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of Ludwig Boltzmann's H-theorem, the collection of these and kindred follies ought to be grouped under the common rubric of "gas theory."

15. Researches conducted in Europe, have documented the origins of Freudian psychoanalysis and the related "Frankfurt School," to a satanic (theosophist) cult spread from London, into Austria-Hungary, and, later, Germany, beginning the 1880s. The key event in this process was Richard Wagner's reception of a coven of these satanists at Bayreuth, on the occasion of the inaugural performance of his musical cult-drama, *Parsifal*. Notable products of this satanic cult's influence included Georg Lukacs, culture minister of the short-lived, 1919, Bela Kun dictatorship of Hungary, and also the doctrinaire who supplied the ideological belief-structure for the 1920s founding of the British-sponsored "Frankfurt School." The overall operation, including satanic cult figure Richard Wagner, Anthroposoph founder Rudolf Steiner, and future founders of the Nazi cult, expressed by circles such as those of Gustav Mahler, and the Ernst Mach out of which both Freud's psychoanalysis and the "Empirio-Critics" sprang, was coordinated as part of a personal freemasonic operation, the Quatuor Coronati research lodge, run on behalf of the Prince of Wales, later King Edward VII.

profound scientific considerations. Even where it is not feasible to make a direct application of a physical principle, that as if in the manner of mathematical physics, our way of thinking about cruder, pragmatic choices of intervention, must be informed by a rigorous insight into the principles which ought to underlie our selection of a pragmatic course of action. To that end, we summarize the rigorous form of the case respecting technological progress—the case respecting what Marx chose to disregard as the “technological composition of capitals.”

Contrary to the elementary presumptions of both the philosophical materialists and the empiricists, validated physical principles never occur as objects of the senses, nor can they be derived from sense-perception by means of deduction.<sup>16</sup> They occur as validated, cognitively generated solutions to ontological paradoxes, usually paradoxes based upon contradictory empirical evidence respecting currently accepted notions of the lawful composition of the universe. Such validated solutions to true ontological paradoxes are termed *ideas*, in the sense of the term *idea* supplied by Plato’s dialogues. The authority of these cognitively generated solutions, is premised upon their experimentally demonstrated efficiency, as the experimentally defined “necessary and sufficient [determining] reason” for a relevant, characteristic, non-linear type of ordering of physical processes.<sup>17</sup>

In Classical art-forms, and statecraft, the same principle of ontological paradox appears under the name of Classical *metaphor*. In this case, contradictions in meaning, arising as ontological paradoxes, are resolved cognitively, by the same methods employed to effected validatable discovered solutions to ontological paradoxes in the physical domain. These solutions to metaphor, are also *ideas*; the metaphor itself, like the title of the relevant Classical poem or tragedy, is often used as the name for the *idea* whose generation it has prompted.

In both cases, discovered physical principles, and solutions for Classical metaphor, the process of cognition is motivated functionally, by a specific quality of passion. The specific quality of passion experienced in scientific discovery, is

the emotional “energy” which enables the necessary intensity and duration of cognitive concentration. It is a passion also experienced as a sense of rejoicing at a valid experience of discovery of principle, or of technology.<sup>18</sup> In Classical art, the same passion, termed *agapē* in the Classical Greek of the writings of both Plato and the Apostle Paul, is applied to a somewhat different subject-matter: to the matter of social relations, taken as defined, as the uniquely human quality of cognition, provides a basis for defining social relations.<sup>19</sup> Hence, the passion and function of Classical art-forms in poetry, tragedy, music, plastic arts, and the study of history from this same Classical vantage-point. These notions of scientific, and Classical artistic *ideas*, are the foundations of epistemology (i.e., *knowledge* as distinct from the relatively sterile, merely deductive, mere learning of taught doctrines).

The application of such notions of *idea* to critical examination of the Kondratieff long-wave doctrine, is most efficiently located in terms of the interdependent notions of multiply-connected manifold, and axiomatically non-linear characteristics of curvature of processes in the relatively very small. These notions are, in turn, situated in the standpoint of the succession of Kepler, Leibniz, Gauss, Weber, and Riemann, in opposition to the empiricist/positivist offshoots of the Venetian school: the schools of English empiricism, French Cartesianism, logical positivism, and Euler, Lagrange, Laplace, Cauchy, Clausius, Bertrand Russell, et al. The exemplary form of such manifolds, is that supplied by Riemann, beginning his 1854 habilitation dissertation.<sup>20</sup>

For this purpose, such Riemannian manifolds should be viewed in the following terms.

Eliminate from geometry all a priori notions of extension of dimensions, including such exclusion of simple-minded intuition of “self-evident” qualities of space and time. In place of a priori dimensions, allow nothing to take the place of “dimensions,” other than (in first approximation) validated physical principles. The existence of space and time can be acknowledged only on the basis of proving experimentally a principle of space, and a principle of time, the which must be

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16. The classical argument to this effect, is supplied by Plato in his *Parmenides*.

17. These *ideas* are generated only by cognition, never deduction. They are generated only within those sovereign precincts of the cognitive processes of the individual human mind. This generation can not be observed by means of the senses; although this cognitive act can be apprehended as a mental object, such an action within one mind can be observed by another mind, but solely by means of replicating the experience of the first mind. The empirical validation of the resulting conception, as a true solution for the prompting ontological paradox, is the means by which two or more minds can demonstrate that the mental object of the discovery in one mind, is the same mental object similarly experienced by another. This cognitive process is intrinsically non-linear, and thus not subject to measurement by means such as Norbert Wiener’s hoax, “information theory.” “Non-linear,” as used here, belongs to the domain of the multiply-connected manifold, from which Leibniz premises the principle of non-constant curvature in the infinitesimally small, and from which he builds his notion of the *monad*.

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18. A physical principle, such as the principle of electrodynamics derived by Wilhelm Weber, Bernhard Riemann, et al., from the combined seminal discoveries of the Monge Ecole Polytechnique’s Ampère and Fresnel, can find expression in each of an assortment of domains of application. The discoveries of electrodynamical technologies by Thomas Alva Edison et al., are typical of the diversity of types of technologies which may be derived from a single validated physical principle.

19. In Plato, the self-governance of individual opinion and conduct by a ruling passion for justice and truth. In the Apostle Paul’s celebrated *I Corinthians* 13, the governing passion which distinguishes the Christian from the hypocritical pretender.

20. Bernhard Riemann, *Über die Hypothesen, welche der Geometrie zu Grunde liegen*, *Bernhard Riemann’s gesammelte mathematische Werke* H. Weber, ed. (New York: Dover Publications reprint edition, 1953). Riemann’s notion of such modular functions is later elaborated in various relevant ways, such as under Leibniz’s title of Analysis Situs, including his contributions to hypergeometry as a distinct branch of study.

independent of any arbitrary, aprioristic presumptions. This constitutes an expandable physical geometry, superseding, replacing, naive, schoolbook geometry.

Thus, the sum-total of physical principles known at a given time, in a specific culture, may be represented by the abstract number  $n$ , corresponding to an  $n$ -dimensional manifold. Such a manifold must be thought of in terms of comparison to the interaction of many astrophysical cycles, in determining the exact position of an observer, or event, within a relatively universal astronomical frame of reference. That is where Riemann's notion of manifold originated historically, and the general outlook, in modern developments of this notion of universality of non-constant ("non-linear") curvatures in the very small, as we have it from that development, from Kepler, through Leibniz and Gauss, which informed Riemann's approach.

Applied to such a manifold, experimental measurement provides us indication of a characteristic curvature of physical-space-time manifold, which distinguishes that manifold, as a mathematical-physical type, from other types of manifolds. It is the same in the science of physical economy, where such methods are the appropriate ones for long-range forecasting.

For addressing historical processes, such as economic processes, we must add to the  $n$  "dimensions" of the physical-space-time manifold, the complementary array of Classical-artistic, and related, historical-political principles, designatable as postulates of a collection (i.e., sub-manifold) abstractly identified as  $m$ -fold.

In this latter configuration of a multiply-connected manifold, the following leading considerations bear upon the case—the Kondratieff "long wave" hypothesis—considered here.

The knowledge of physical space-time represented by an  $n$ -fold such manifold, is fairly identified as representing the relationship between human existence and the physical universe, in a culture expressing the practice of a knowledge corresponding to such a manifold. Thus, the individual's discovery of an *idea*, as this is replicated for practice within the society, is the characteristic activity which defines the human species' historical, physical relationship to the universe at large.

However, we do not simply act as individuals, when we apply the knowledge typified by such a manifold to the universe. The effective action depends upon social processes, through which the discovery of such *ideas* is replicated in other minds, and depends otherwise upon those features of the political and other organization of social relations, which define a number of persons as constituting a society. Thus, it is as social and political postulates of the  $m$ -fold sub-manifold interact with the knowledge represented by the  $n$ -fold physical-space-time sub-manifold, that the policy decisions and practice of a society are ordered.

The exemplary case, is Friedrich Schiller's solution to a

problem posed to continental Europe generally by the abomination known as the French Jacobin phenomenon of 1789-1794.<sup>21</sup> Until this French horror-show, the anti-oligarchical forces of Europe had been inspired by the 1776-1783 American War of Independence, as the model upon which the hope of a truly civilized human existence was premised. The Jacobins demonstrated, to paraphrase Schiller's German, that a moment of great opportunity had, unfortunately, found in the French population, a pathetically little people. Schiller's remedy followed the Classical tradition of such exemplary, relatively immediate predecessors, and adversaries of Voltaire, as Moses Mendelssohn and Gotthold Lessing. Schiller emphasized the role of great compositions in the Classical art-forms of poetry, tragedy, music, and study of universal history, as the necessary *moral* education of the individual's passions. This moral education, supplied by great compositions in Classical art-forms, is required to produce a true citizen of a republic: our  $m$ -fold sub-manifold.

These are the passions, so developed, which enable the scientific discoverer to sustain cognitive concentration in such durability and energy as to make the needed discovery. These are the same passions peculiar to true Classical art, as opposed to the erotic banalities of those productions which pass for popular entertainment of the yahoos today.

Like Karl Marx, and like Marx's adopted empiricist predecessors in the field, Kondratieff attempts to devise a theory ostensibly premised on economic facts, without considering the relevance of those issues of cognition we have just summarized. To make these connections and their relevance clear, begin with a first approximation. For that purpose, consider, as first approximation, the nature of the connection between the validated discovery of a physical principle, and the transformation of the design of products and productive processes through the application of that principle. That does not answer all pertinent questions, but it does expose the rudimentary nature of the phenomena to be considered.

Begin with the most ancient of the known branches of anything worthy of the name of "physical science:" relatively sophisticated, long-cycle, solar-astronomical calendars, such as those of the Central Asia Vedic culture of 6,000-4,000 B.C. (and perhaps much earlier), dating from millennia earlier than the Semites of Mesopotamia first received the rudiments of literacy, from their sea-going Dravidian neighbors. Those ancient, long-cycle, solar-astronomical calendars afford us an insight into the mental processes by means of which such calendars were constructed. As we pick up the thread of this

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21. From July 14, 1789, through July 23, 1794 (The Ninth of Thermidor). That is to say, during an interval which began with a British agent's, the Duke of Orléans' storming of the Bastille, as an election-campaign stunt, that in support of the candidacy for the post of Prime Minister, of the same Swiss banker, Jacques Necker, who had just previously, as Finance Minister, organized the national bankruptcy of France. This interval is concluded with the July 23, 1794 arrest of the principal still-surviving Jacobin leaders of the Terror, most notably Maximilien Robespierre and Saint-Just.

same subject-matter, in comparing the work of the ancient Egyptians and their immediate successors, the Classical Greeks of Plato's Academy through Eratosthenes and his contemporary Archimedes, the emergence of science, and its correlation with increase of humanity's potential relative population-density, form a discernable, and fascinating pattern, leading into the Nineteenth Century further development and application of Lazare Carnot's machine-tool principle.

Summarily, the result is this. When we think that we have resolved an ontological paradox, by discovery of some new physical principle, we are obliged, in the closing words of Riemann's habilitation dissertation, to depart the domain of mathematics as such, for "the domain of another science, the domain of physics," experimental physics. For two reasons, we are obliged to construct something in the nature of a special experimental apparatus. We have two objectives. Our most general objective, is to demonstrate that the new principle we have discovered, is actually indispensable to account for some measurable, undeniable effect, an effect demonstrated to be as pervasive as the discovery implicitly requires. Our associated objective, is to measure the change in characteristic of action in the newly defined physical domain, as compared to the characteristic of action in the previously defined domain.

In general, progress respecting scientific principle, results in what is demonstrably a potentially increased power over nature, per capita. The object is, both to realize that potential in social practice, and also to accelerate the rate of realized scientific progress to such a degree that a certain, general physical-economic constraint is satisfied. The constraint is, that the ratio of physical-economic "free energy" to "energy of the system," for the society as a whole, must be positive and tend to increase, despite the fact that to achieve this progress, the relative physical-economic "energy of the system" must be increased, both per capita and per square kilometer of the planet's surface-area. In other words, the rate of realized scientific progress must be accelerated to the degree that this constraint is satisfied.

This requirement places the emphasis upon the subjective consideration: the relevant development and activity of the cognitive processes of the individual mind. The development of that potential is accomplished by a certain policy of educational practice. The principle of such education and related cultural nurture, is that each young person must relive the cognitive act of original discovery of the most essential, validated physical principles and Classical-artistic conceptions of all humanity to date. The individual so educated, simultaneously embodies that accumulated wealth of history, and, by this means, has trained and honed the cognitive powers to a very high level of potency.

Thus, the association of the educational institutions with fundamental progress in science and Classical art-forms, is the natural center of activity of a well organized culture. If we couple fundamental scientific progress (e.g., discovery of principle and experimental validation of those discoveries)

with such forms of educational activity, we have thus mobilized the younger generations to assimilate and to drive forward the process of scientific, technological, and artistic progress at the relatively highest rates.

The machine-tool-design principle occupies a crucial position in the processes of self-development of such a society. That is, the refined form of apparatus developed for proof-of-principle experiments, is a model for the application of the proven principle in the forms of new designs of products, and improved designs of productive processes.

The point is illustrated by the role of military and aerospace "crash programs," as drivers of economic progress of economies as entireties. We should be startled by the fact, that the production of products which appears to be economic waste (as military expenditures are), can nonetheless increase the wealth and productivity of that society; and this is a paradox well worth examining. Distinguish the benefits of not losing a war, from economic benefits otherwise. How can the production of economic waste increase the wealth of an economy as a whole? The effective product, in such cases, is not the objects produced, but the proliferation of more advanced technologies into those regions of production whose output is economically useful.

For example, the ideal technology driver is a "crash" space program. How does wealth sent out into nearby space, as to the Moon or Mars, benefit us on Earth? The wealth obtained lies not in the objects sent into space, but in the high rate of advancement in technology, supplied, as a by-product of space programs, to the civilian sector of the economy. The

## Russian press features the LaRouche alternative

The Moscow weekly *Ekonomicheskaya Gazeta* reported LaRouche's forecast of a March financial crisis, and his discussion of the need for a New Bretton Woods, in two articles in March.

First, on March 11, under the headline "Will It Crash at the End of March?" the journal excerpts from LaRouche's March 4 radio interview with "EIR Talks," in which he points to the "very interesting situation" around the April meeting of 22 countries to discuss the world financial crisis, under circumstances where "the countries of Southeast and East Asia are now in the process of disintegrating." "Real earthquakes" are likely by the end of March, LaRouche said.

*Ekonomicheskaya Gazeta*, identifying LaRouche as "an opponent of G. Soros," quotes him on the importance of the U.S.-China relationship for organizing the forces to avert "a new Dark Age," and on the coming implosion of

practical problem is to ensure that that connection functions, that the civilian sector is delivered and utilizes such technological progress at the relatively highest rates.

In sum, there is no “long wave” effect, in the sense that Kondratieff argues. Sometimes, external considerations may cause us to think we see such a “long wave,” more or less as some people used to think they saw the face of a man in the Moon. In other words, there is no necessary phase of decline to follow an ascending phase. There is no principle in physical economy which requires society to experience either business cycles or long waves in technology. The actual cause of the business cycle, or apparent long-wave phenomenon, lies outside the n-fold sub-manifold, in dysfunctions located within the m-fold sub-manifold. Under proper policies of education and realization of discoveries, the rate of output per capita may be always upward; any failure to perform so, is a matter entirely located in pathologies of the social and political systems.

A wise ruler sent for a great philosopher, to discover how the terrible condition of his economy might be remedied. The philosopher informed the ruler: “The first step is, that your government must retire, and be replaced by a more suitable one.” The wise ruler asked the philosopher, how they might collaborate to find and install that more suitable government.

## The business cycle

The reason for business cycles ought to be so obvious, that anyone with a slight good knowledge of history could

correctly identify the problem immediately. The difficulty is, that it is risky to speak loudly of the obvious causes of a family’s hunger, as the relevant armed bandits are devouring the household’s food in the kitchen.

The distinctive political significance of Christianity, is that Christ and his Apostles, for the first time, identified all men and women as made in the image of the Creator, and that with no allowance for racial or other ethnic discrimination. Nonetheless, it was not until the late Fifteenth Century that there was established, in Europe, the first nation-state premised upon that principle of equality. Prior to that time, through all known history, the world was dominated by empires of one sort or another. Through the existence of European feudalism, approximately ninety-five percent of the human population existed as virtual human cattle, at the pleasure of a relatively small ruling oligarchy and its attached bands of lackeys. Under these regimes, the oligarchy chose as elected or hereditary ruler, a personality with the authorities of an emperor, from whose capricious will law flowed, tempered only by a cautious regard for the accepted customs of the subject varieties of human cattle.

This ugly condition of Mediterranean society was dominated, from the time of ancient Akkadia, by two principal types of oligarchies: a landed aristocracy, and a financier oligarchy. These oligarchies, acting largely through permanent bureaucracies, exerted virtually absolute power over the masses of people whose existence was essentially that of human cattle.

With the emergence of the original pilot-model of modern

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the derivatives bubble.

The subsequent issue, that of March 18, carries excerpts from LaRouche’s article, “Russian Science: A Strategic Assessment,” which first appeared in *EIR* of Aug. 8, 1997. The translated sections deal with the measurement of physical economy’s “market baskets,” “crash program” principle of science as the driver of an economy, the importance of advanced aerospace programs for economic reconstruction today, and the great benefits for Russia’s science-intensive industry, of producing for Eurasian development.

A polemical introduction is provided by Prof. Taras Muranivsky, under the headline, “Alternative to Monetarism.” It begins:

“The words of Premier Viktor Chernomyrdin about the Russian government’s adherence to monetarism, broadcast to the entire world on Central Television, are still fresh in our memory. In his report to the Feb. 26 government session, he declared that the government, despite criticism, is following monetarism, but just not doing so very well, ‘That means,’ the premier stressed, ‘that we will see our “just monetarist cause” through to the end.’ ”

Muranivsky points out that the latest accomplishment

of Russian monetarism, is the legalization of prostitution in Saratov Province, as a source of “national income.”

“Among the Western critics of this flawed ideology, which parasitizes on the body of the economy, the role and influence of the well-known American economist, politician, and thinker, Lyndon LaRouche, should be specially noted. . . . LaRouche’s scientific works, including those translated into Russian, provide a ‘ray of light,’ cutting through the murky stream of foreign publications and videos, flooding the Russian information market.”

Muranivsky attacks current economics textbooks in Russian as one long apology for greed, as “theoretical justification” for the principle that “the market has no conscience.” LaRouche, by contrast, insists that economics is man’s relationship to nature, to the universe. “It is mankind’s ability to survive. It is life expectancy, the cultural conditions for life, it is science, Classical art, a high level of intellectual culture.” He urges that “LaRouche’s works will be of interest and use, to people from various schools and tendencies, who are interested in restoring the Russian economy, which has been destroyed by the implemented ‘reforms.’ ”

nation-state, the reconstituted France under King Louis XI, there ensued an attempt to destroy the power of the oligarchy, then centered in Venice. However, the betrayal of the anti-Venice League of Cambrai, unleashed a savage feudal reaction throughout Europe, a reaction dominated by a crafty Venice, the center of evil and financier oligarchy, which knew how to manipulate the relatively more bucolic landed aristocracy. Venice's manipulations divided Europe against itself: Protestant North, from Catholic South, Latin West from Oriental East, ally Spain against France, England against both, and Germany almost destroyed in Venice's orchestration of the Thirty Years' War.

With Palmerston's use of his agent, Giuseppe Mazzini, to topple the power of the landed aristocracy under Clement Prince Metternich, the northern-based branch of the reactionary Welf faction of feudalism, the Anglo-Dutch financier oligarchy, emerged as the supreme form of oligarchical power in Europe.

However, the strategic superiority of national economy led to centuries of uneasy symbiosis between the dominant financial power, the neo-Venetian financier oligarchy headquartered in London, and the forces of national economy, represented by the entrepreneurs and ordinary actual or would-be citizens. The characteristic feature of national economy, agro-industrial profit, was thus entangled like the family of Laocoon, with serpent financier-oligarchical usury.

Thus, approximations of the nation-state emerged in continental Europe in the form of increase of the role of parliaments. The result was that only briefly and rarely did true nation-state forms arise in Europe; rather, the nation-state was merely approximated by the increase of privileges granted to parliamentary government, while the oligarchy, usually controlling the permanent state bureaucracy top-down, retained the essential control over the state apparatus.

Even in the U.S.A., which is the only true and durable republic established during the Eighteenth and Nineteenth Centuries, a native financier-oligarchy, chiefly tied to London, grew up around New England opium-traders, treasonous Manhattan bankers, and southern slaveocracy. These combined forces succeeded, especially beginning the Grover Cleveland administration, but more especially after the inauguration of President Theodore Roosevelt, in establishing increased power for a permanent bureaucracy, whose authority and arrogance grew at the expense of the people, and of elective office. A U.S.A. so corrupted, began, more and more, to resemble the state of affairs in Europe.

As long as nations faced threats of war, the financier oligarchy never grew so absolutely powerful, until about thirty years ago, that it dared to crush the forces of national economy, on which latter the military and related strategic capacity of the nation-state depended. Thus, the parasitical depredations of the usurious financier oligarchy hindered economic growth, and the usurious burden of their accumu-

lated financial capital produced periodic economic depressions. However, as long as national economy was a national-security imperative, the financier-oligarchy's depredations were held somewhat in check, and periodic recoveries from economic depressions occurred, chiefly when threat of war, or actual warfare prompted the mobilization of such recoveries.

Functionally, national economy is defined by the principle of "anti-entropy," as represented here. That is to say, the principle that the ratio of free energy to energy of the system must rise secularly, despite the fact that this rise requires an increase of the relative energy of the system per capita, and per square kilometer. This requires the mustering of the cognitive potentials of the population for the benefits of scientific and technological progress.

Functionally, financier oligarchy is purely parasitical. It has no necessary function in a national economy.

Thus, the two processes are separate and opposite in function, and in no way can be represented as a single common function. The object of national economy is to eliminate the weeds of financier oligarchy from the national-economic garden.

The problem has been, that all followers of the notions of political-economy supplied by the British East India Company's Haileybury School, the political-economy of Karl Marx included, have perpetrated the grave error of treating "European capitalism" as a homogeneous political-economic system, rather than a more or less mortal strife between two ultimately irreconcilable adversary-forces: national economy versus financier oligarchy. The attempt was made, to account for business cycles as inhering in a system based upon some common principle of function, rather than a reflection of a symbiosis between species of incompatible functional characteristics.

The result of such false, but popularized academic presumptions, has been a resort, in study of economies, to the unscientific statistical method, rather than functional analysis. There is nothing which allows the financier oligarchy to exist today, except the habituated proneness of the plebeian to bring a knuckle to his forelock when the wealthy financier-oligarch, or that oligarch's lackey, strides past.

Unfortunately, the general population's conditioned proneness to submit to such humiliations, short of the most intolerable extremes, tends to the effect of bringing needed reforms, if at all, only through the bloodiest sorts of wars and social upheavals. Let it be proposed, that if we ceased pretending that financier oligarchy were something other than a noxious parasite, we would at last free ourselves by discovering obvious, better means than we have resorted to in past efforts.

So, if the distinctions appear, deceptively, slight, at first glance, more thoughtful reflections reveal that these distinctions are by no means minor, and are even potentially fatal errors.

# Key measures for a transition to economic growth in Russia

by Sergei Glazyev

*This paper was written in January 1998.*

## The present situation

The main reasons for the continuing economic collapse and the destruction of Russia's scientific and technological capacities are gross errors in macroeconomic policy, which produced several vicious circles of cause and effect, establishing conditions for the prolongation of depression and the contraction of economic reproduction.

The first circle: disintegration of the economy, and the debt crisis. The shift of the money supply into speculation, due to the extremely high returns there (financial pyramids, speculation on the shares of privatized enterprises, currency speculation, speculation on GKO's [Russian Treasury bills]), and the suppression of inflation by means of restricting the money supply, caused the departure of money from the real sector of the economy and, consequently, a payments crisis and a budget crisis. In effect, the country's economy decomposed into two loosely connected spheres—the speculative financial, and the productive—the former being characterized by rapid growth and the concentration of wealth and capital, while the latter, playing the role of donor for the former, is in a state of deep depression and decline.

The state policy of promoting and supporting speculative instruments of market regulation, particularly the emission of super-high-yield state bonds and the build-up of the state debt, resulted in an even more rapid outflow of capital from the productive sphere into GKO speculation, a further aggravation of the payments crisis, and a decrease of tax revenues. At the present time, the economy has landed in a debt crisis trap, where current expenditures to service the state debt are more than double Federal tax revenues, which necessitates a continuous growth of borrowing, at a rate of increase of 1.5 times per year. Servicing the state debt has become the largest item of budget spending; the state debt has turned from a mitigating factor in the budget crisis, into a powerful factor of its exacerbation, compounding the crisis both directly (through the increase of budget spending) and indirectly (through aggravation of the payments crisis).

The second circle: collapse of demand, curtailment of production, increase of costs, and decline of competitiveness. With the restriction of the money supply, the reduction of aggregate demand provoked cost inflation and a collapse of

production, which aggravated the growth of costs. Cost inflation reached its extreme point, with the establishment of price proportions that are highly unfavorable for the productive sector. Along with the depressive effect of contracting demand, a vicious circle of production decline took shape:

rise of raw materials prices above world levels—  
increase of costs in the manufacturing industries—  
decline of the competitiveness of domestic manufacturers—  
their displacement by imported goods—  
decline of production—  
increase of costs—  
deterioration of the financial situation of enterprises in the real sector of the economy—  
lowering of wages—  
reduction of demand—  
collapse of production, and so forth.

The pernicious influence of this cycle was significantly compounded by the policy of raising the real exchange rate of the ruble. This factor alone caused a more than sixfold decrease in the competitiveness of domestic goods, by comparison with analogous imports.

The first two vicious circles induce a third: the lowering of production efficiency and reduction of investments. The reduced scale of production leads to a decrease of its efficiency, to the deterioration of the financial condition of producing enterprises, and to the loss of their ability to invest. The reduction of investment, in turn, results in a further decline of efficiency and competitiveness, which leads to a still greater collapse of production.

The fourth circle: Bankruptcy of productive enterprises, loss of national control over them, and the colonization of the country bring full circle this negative feedback, which perpetuates the process of economic depression and the degradation of the productive sector. The de facto failure of mass privatization as an instrument for the creation of effective property-owners, against the backdrop of the outflow of capital from the productive sector and the disintegration of the economy, encouraged the development of predatory motivations in business behavior: the establishment of control over an enterprise, privatized for a song, for the purpose of looting it or reselling it to competitors. The latter are usually foreign companies, interested in establishing control of the relevant segments of the domestic market, or in eliminating potential Russian competitors on the world market. As a result, privatization most

often has brought with it not an increase in management efficiency, but, rather, the opposite: Firms are squeezed for their liquid resources, efficiency is reduced, bankruptcy ensues, or surrender to control by foreign competitors.

At present, an unstable equilibrium has been attained in the economic system, which is expressed in the suppression of inflation, zero growth, and the stabilization of the exchange rate of the ruble. Under conditions of continuing depression in the productive sphere and the reduction of investments, this balance is maintained by means of “hot monies” being artificially tied up in the speculative sphere, through the build-up of the state debt “pyramid.” In order to maintain this balance, the Central Bank and the government, so as to prevent the growth of aggregate demand on the currency and commodities markets, are forced to guarantee high returns on investments in the state debt “pyramid,” and to divert a large part of the monetary emission and one-fourth of all Federal budget spending, for these purposes. By maintaining such high returns on speculative operations (not below 20% annual interest), however, in the setting of the declining profitability (down to a level of 7%) and abiding high risk of financing industrial enterprises, the Central Bank effectively blocks any influx of capital into the productive sphere or growth of investments, which are out of the question, given such a correlation of economic valuations.

The following parameters of the current state of macroeconomic equilibrium have been empirically determined:

GKO yields	20-30%
Central Bank refinancing rate	20-30%
Profitability in the productive sector	5-7%

Capacity utilization in industry	around 40%
Unemployment (including implicit)	10-15%
Inflation	around 10%

### Prognosis

It is obvious, that in the present state of equilibrium, there can be no growth of productive investments, revival of industrial production, or improvement in the general economic situation, due to the insuperable gap between yields on speculative operations and profitability in the productive sector. The Central Bank’s most recent actions, in raising the refinancing rate and, accordingly, the return on GKO’s, confirm that this equilibrium can only be maintained at yield levels that are out of reach for industrial investments, and that it is achieved at the cost of a rapid growth of the state debt, the immobilization of the population’s savings, increase in Federal budget spending for debt service, and an outflow of capital from the sphere of production. Therefore, the longer the current balance persists, the worse the state of the productive sector and investment activity. The 7% decline of investments and 1.5-fold growth of debts in default, a 14.5% (50.6 trillion rubles) increase of losses in the sphere of production, the insolvency of half of all producing enterprises, along with the increase of the state debt by more than 100 trillion rubles — these are the costs of maintaining this equilibrium during last year [1997].

To maintain this balance during 1998, will require the emission of over 100 billion new rubles [redenomination of the ruble occurred on Jan. 1, 1998, with the removal of three zeroes] worth of new bonds, as well as the 124.1 billion rubles in Federal budget spending, included in the draft Federal budget for the current year. But even this amount may be insuffi-

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Elected to the new parliament, the State Duma, in December 1993 from the Democratic Party of Russia, Sergei Glazyev headed its Economic Policy Committee until 1995, then worked at the Security Council during 1996. Dr. Glazyev has maintained his association with the Central Mathematical Economics Institute (CEMI) of the Russian Academy of Sciences, where he undertook his post-graduate studies. His April 1996 report to CEMI’s Scientific Council, “The Theory of Economic Growth in a Transitional Economy,” was excerpted in *EIR*, May 31, 1996.



*Dr. Sergei Glazyev*



cient to service the augmented “pyramid” of state securities; the government is demanding to be granted the right arbitrarily to reallocate unprotected budgeted expenditures in favor of servicing the state debt, announcing that additional required allocations for this purpose may run from 25 up to 40 billion new rubles. Depending on tax collection rates, this may result in the sequestration of 20-50% of unprotected budget spending, which in effect would mean the final destruction of the state budget system.

Alternatives would be a relatively greater monetary emission, for the purpose of purchasing state bonds, or increased borrowing abroad. The GKO pyramid has far exceeded the limits of sustainability; during this year or next, the balance maintained at such a high price will be “exploded” by the financial bankruptcy of the state, which is inevitable under such a policy. Moreover, the longer the balance is maintained, the more severe will be the consequences of the crash. To escape from the debt crisis will require either tens of billions of dollars of new, emergency borrowings, or a shift to a policy of economic mobilization, accompanied by relapses into the command-administrative system. The cost of such actions will be, respectively, either the final loss of national sovereignty in economic, defense, and foreign policy, or an abrupt deterioration of the population’s standard of living. In any event, an uncontrolled debt crisis will bring about the latest serious destabilization of the economic system, wiping out the value of the huge sacrifices made for the policy of stabilization in the preceding period.

## Guidelines

A continuation of the policy of passive accommodation to the debt crisis and economic depression, by building up the state debt and budget spending on debt service, will lead to the speedy bankruptcy of the state’s financial system, with extremely grave political and social consequences. Therefore, measures should be adopted, first of all, to make the debt crisis manageable and, secondly, to create real conditions for economic growth and to bring some stability, on that basis, to the country’s socio-economic development. Accordingly, some short- and medium-term guidelines are in order.

The short-term guidelines should provide, first of all, for a way out of the debt and budget crises. They include: an increase in Federal budget revenues by at least one-third; a twofold reduction of spending on state debt service; a sharp reduction of new short-term borrowing.

The medium-term guidelines are defined by the President’s official directions on the transition to economic growth. They provide for: the achievement of stable annual GDP growth rates of 5-7%; a sharp increase of investments, at a rate of not less than 25% per annum, including an increase of investments in science-intensive industry and new technologies at up to 40% per annum; while inflation is brought down to an annual 15-25%. Additional social guidelines are: growth

of the population’s incomes at an annual rate of 3-4%, reduction of unemployment to no higher than 5%, a significant mitigation of social stratification, and the elimination of mass poverty.

In the framework of the present macroeconomic policy, it is impossible to achieve, or even approximate, these goals. At the same time, the officials who are implementing this policy today are incapable of changing it, due, first of all, to their incompetence; secondly, to their strong dependence on the influence of foreign capital, and pressure from the leading Western countries and heads of international financial institutions; thirdly, to their personal interest in its continuation; and, fourthly, to their fear of being removed from power, in the event of a revision of the policy they have implemented.

These are the reasons that explain why the leaders of the government and the Central Bank strongly reject all proposals for solving the budget and debt crises, put forward by the scientific community, business circles, or the Houses of the Federal Assembly, and ignore the obvious threats to national economic security. Therefore, attainment of the above-indicated economic policy goals and implementation of the President’s directions on a transition to economic growth, will demand a significant cadre improvement in the top leadership of state bodies responsible for the formulation and implementation of economic policy.

In order to shift to economic growth, a system of measures should be adopted, that ensure: overcoming of the gap between the spheres of production and of finance; a change in price proportions, favorable to manufacturing industries; an increase of demand; a rise in the competitiveness and efficiency of domestic production; a sharp increase of investment activity; reconstruction of the economy on the basis of spreading the next technological mode;<sup>1</sup> exit from the budget and debt crises. The implementation of these measures presumes departure from the present state of equilibrium, which will likely be accompanied by a temporary worsening of the inflation rate, will require restructuring of the state debt, and will cause certain problems with creditors and international financial institutions. A transition to economic growth also presumes a cardinal change of economic policy priorities, entailing significant alterations of proportions in the distribution and appropriation of the national income,<sup>2</sup> in favor of wages,

1. The author uses terminology from the so-called long-wave school of economic research, initiated by the Russian N.D. Kondratieff (1892 until his 1930s death in a Siberian prison camp), and continued by Harvard’s Joseph Schumpeter (1882-1950) in his 1939 book, *Business Cycles*, and others. Dr. Glazyev terms successive sets of technological innovations, dominating the economy during given periods, each as a distinct *uklad*, which may be translated as “structure,” “mode,” or even “vintage.”

2. “National income” (*natsionalny dokhod*) is an economic reporting category used in the Soviet Union and Russia. It denotes the value added in a year by all branches of production—in Soviet usage, only material production and productive services.

the state budget, and productive investments, and it will also require serious political support, in order to overcome the resistance of the financial oligarchy.

A medium-term economic growth policy presumes the creation of general macroeconomic conditions and the application of special measures, oriented toward launching an upswing of investment and production activity. At the same time, short-term policy, along with the adoption of these measures, should be directed toward a speedy solution for the tasks of overcoming the budget and debt crises, which means

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*In the present state of equilibrium, there can be no growth of productive investments, revival of industrial production, or improvement in the general economic situation, due to the insuperable gap between yields on speculative operations and profitability in the productive sector.*

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a cardinal change of budget and credit policy priorities, the adoption of measures to restructure the state debt, and the mobilization of additional budget revenues.

### **General conditions**

The prerequisite for the creation of general conditions for economic growth is an essential change in the general principles of economic policy and the rejection of a number of dogmas, which have reduced macroeconomic regulation to primitive formal procedures of directive monetary planning, which only serve to compound the crisis. Economic policy should become complex and systemic, subsuming not only the monetary, but also investment, structural, industrial, foreign trade, science and technology, and other components, necessary to provide the prerequisites for economic growth under present conditions. It must provide a way to overcome the disintegration of the economic system, to chart the economic reproductive growth curves for the transformation of savings into investments, to restore normal circulation of payments, and to raise the competitiveness of Russian producing entities. A brief outline of the principal elements of an economic growth policy is presented below.

1. With respect to monetary and credit policy, a shift must be made from the primitive policy of formally planning increases of the money supply, to a complex policy that maintains a rate of interest favorable for productive investments and the restoration of enterprises' circulating capital, while

maintaining a supply of money that is adequate to ensure payments, and pushing foreign currency and monetary surrogates out of domestic payments circulation.

Such a transition means a significantly more complex technology for monetary planning and regulation. In particular, the movement of the money supply should be planned as an estimated value, rather than as a specifically targeted value, in accord with the actual demand for monetary resources, not only on the financial markets, but also in the sphere of production. Considering the disintegration of the economic system that has taken place, regulation of monetary circulation should be conducted in a differentiated manner, including measures for the targeted regulation of monetary flows, to keep them in the real sector of the economy, the attraction of productive investments, and the replenishment of enterprises' circulating capital. This may be accomplished by means of the introduction of investment accounts, norms of crediting, targeted regulation of monetary emission within established limits, differentiation of reserve requirements depending on real operations, provision of state guarantees, and the utilization of a multitude of other instruments, aimed to attract and hold money in the productive sphere, and to stimulate investments in production.

In monetary policy, it is necessary to raise the role of qualitative parameters (interest rates, first and foremost), moving toward planning them in a differentiated way, which takes into consideration the needs of various spheres of economic activity, characterized by different rates of monetary circulation and different degrees to which inflation depends on the dynamics of money availability. Above all, this involves consideration of the needs of the productive sector for monetary resources, to restore the normal circulation of capital and provide for an upswing of investment activity. When estimating the correct level of monetary supply to the sphere of circulation, it is necessary to take into account the additional demand for money, connected with desirable measures to dedollarize the economy and expand the use of rubles for international payments, as well as with the growth of the securities market and the entry of land and raw materials deposits into market circulation.

Measures must be adopted to localize and eliminate the payments crisis. In particular, it is necessary finally to solve the problems of organizing credit circulation, shifting to electronic payments, and restructuring the indebtedness of major debtors.

2. Regarding a policy to regulate financial markets and exit from the debt crisis, measures should be taken to decrease the return on, and hence the attractiveness of, speculative operations, not associated with investments in production. The artificial measures that have raised the profitability and reduced the risk of operations in the sphere of circulation should be abolished, such as: the Central Bank's provision of services like holding commercial banks' free resources in

Central Bank deposit accounts, or the enlistment of direct commercial bank credits for purposes of financing budget spending, with government guarantees. There should be an end to the various machinations that “cycle” budget funds through privileged banks, and so forth. At the same time, state guarantees should be expanded for the attraction of investment credits. It is also appropriate to introduce a system of state guarantees for the population’s deposits in banks that meet prescribed minimum norms for extending credits to the productive sector.

Here must be a cardinal decrease of the yields on state bonds, at least to a level comparable with world standards. In order to eliminate the anti-investment effect of the state bond “pyramid,” their yields need to be brought down to a level, not exceeding the profit rate in the productive sector, which is no higher 7% per year in real terms.

It will be impossible to avert a crash of the GKO financial “pyramid” without restructuring it, so as to restore some correspondence between the current obligations of the state and the possibilities for them to be serviced. One necessary element of this restructuring should be a freeze on servicing GKO held by the Central Bank; these may be written off, or transformed into long-term, interest-free bonds. It is necessary to end the absurd situation, where the Central Bank grows super-rich, by allocating emitted money for the purchase of GKO and appropriates huge profits at the expense of the Federal budget. Furthermore, some of the bonds that are in the hands of state-controlled banks can be restructured by means of converting short-term into long-term obligations. There may also be special negotiations with the domestic banks that are the biggest holders of state bonds, on mutually acceptable terms for restructuring them. Without such measures, it will be impossible to stop the spontaneous growth of the GKO “pyramid” and reduce the cost of servicing it, which means to reduce returns on the financial markets to a level acceptable for industrial investments.

The reduction of profitability and restructuring of these bonds will result in a decline of demand for them, and, consequently, will aggravate the problem of financing the Federal budget deficit. This problem will be partially solved, on the one hand, by the reduction of spending to service and pay off that part of the state debt, which is owned by the Central Bank and other state agencies, and, as well, by measures to increase non-tax budget revenues, indicated below. At the same time, in order to reduce the debt burden and associated budget outlays, it is necessary to resume the practice of using interest-free Central Bank credits to finance the cash gaps between budget revenues and expenditures within a year, which are determined by objective seasonal factors in the Russian economy.

Considering the negative influence of the high domestic debt on Russia’s credit rating, which worsened after the highly disadvantageous (for Russia) write-off of the greater

part of its foreign financial assets as a condition for joining the Paris Club,<sup>3</sup> it seems appropriate to write off the economically senseless part of the domestic debt held by the Central Bank (repayment arrears on state credits for the support of the economy, deliveries to the North, etc.), and to begin negotiations on writing off part of Russia’s foreign debt, which by 2003 it will not be able to afford to service.

In connection with the inevitable reduction of demand for GKO, as their yields decline, compensatory measures should

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*The officials who are implementing this policy are incapable of changing it, due, first of all, to their incompetence; secondly, to their strong dependence on the influence of foreign capital, and pressure from the leading Western countries and heads of international financial institutions; thirdly, to their personal interest in its continuation; and, fourthly, to their fear of being removed from power, in the event of a revision of the policy they have implemented.*

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be adopted. For instance, the Central Bank could count some portion of investments in state securities as deductions from the mandatory reserves of commercial banks that purchase such securities, and could introduce rules, obliging insurance companies to hold part of their assets in the form of state securities, and so forth.

Measures to restructure the state debt may result in a temporary decrease of financial market stability. In the absence of such measures, however, the market will experience catastrophic destabilization. In any event, it makes sense to introduce mechanisms to counter destabilizing influences on the part of big speculators, which would include a procedure to halt the free repatriation of capital, a temporary cessation of foreign currency sales, flexible devaluation of the ruble, etc.

**3.** Tax reform and overcoming the budget crisis. Tax reform should provide for: reduction of the tax burden to no

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3. Russia’s membership in the Paris Club of creditor nations was finalized in September 1997, on terms that included the write-off of Soviet-era debts owed to Russia by developing sector and other foreign countries.

higher than a combined rate of 35% for taxes on value added, profit, and wages; tax exemption for the part of profits, earmarked for improvements in production and assimilation of new technologies, scientific research and development, and replenishing of enterprises' circulating capital; a twofold reduction of the value-added tax; simplification of the tax system; use of automatic tax payment procedures, rather than declarative; redistribution of the tax burden from poor citizens to those with high and superhigh incomes.

The decrease of the tax burden on current incomes, pro-

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*Measures to restructure the state debt may result in a temporary decrease of financial market stability. In the absence of such measures, however, the market will experience catastrophic destabilization. It makes sense to introduce mechanisms to counter destabilizing influences on the part of big speculators.*

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jected in the proposed tax reform, should be compensated by an expansion of the tax base, as a result of shutting down the "shadow economy" and the general animation of industry; the elimination of all privileges and exemptions from paying customs duties, the value-added tax, and duties on imported goods; the increase of taxes on luxury items; higher taxation of socially and environmentally harmful kinds of activity, speculative operations and income derived from property; the regulation of the alcohol market, in accordance with the adopted Federal law "On State Regulation of Production and Circulation of Ethyl Spirits and Alcoholic Products," as well as the activation of non-tax sources of budget revenue.

Among the latter, the most important is natural rent, the major part of which should be collected as state budget revenue — by means of appropriate resource payments and the use of an export tariff for the collection of natural rent on exported natural gas and some other raw materials with a low degree of processing. As an alternative or a supplement to the export tariff, a state monopoly may be introduced on the export of these commodities, for the purpose of confiscating the relevant excessive profits into the state budget.

In budget policy, all overt and covert forms of legalized embezzlement should be halted ("cycling" of budget appropriations through privileged banks; replacement of budget

appropriations by commercial bank credits guaranteed by the Ministry of Finance; holding of reserves for servicing the state debt, in privileged commercial banks, etc.). Budget expenditures should be managed through the Treasury and the Central Bank.

In their totality, these measures could increase Federal budget revenues by one-fourth, while reducing unproductive spending to the same degree. This would double the efficiency of the budget system, which is quite sufficient to solve the budget crisis and make real tax reform possible.

4. The reform of the pension system entails transition to a system of personal accounts, and the simultaneous development of a system of non-state pension funds, with the introduction of appropriate state guarantees and tax exemption of voluntary contributions to pension insurance. The pension reform plan approved by the government can be considered satisfactory, albeit belated.

5. Respecting anti-monopoly policy, it is necessary to tighten price controls on the raw materials and natural monopolies, holding the growth of these prices to one-half the general level of price inflation, and to introduce strict regulation, up to and including a state monopoly, of electricity and natural gas distribution and railroad transport services, in order to prevent costs from being overstated. The major task in this area is to level out price proportions, for the purpose of raising the profitability of industrial and agricultural enterprises, creating a basis for the expansion of production.

6. The decriminalization of economic activity, by means of strengthening state protection for property rights, responsibility for observing contract discipline, improving the efficiency of the system for settlement of economic conflicts in the courts, more stringent responsibility for the fulfillment of contractual obligations and repayment of credits. There must be a cardinal improvement in the efficiency of the judicial system, with elimination of the corruption that is corroding it.

7. Defense of the interests of the Russian manufacturer, in foreign trade: elimination of unfair foreign competition, employing both customs duties and non-tariff restrictions; restoration of strict quality controls for imported goods; introduction of limits on foreign investment in national security-sensitive branches of industry and fields of activity (the defense industry, exploitation of raw materials deposits, telecommunications, trade, finance, the electric power industry, etc.); formation of a customs union with CIS [Commonwealth of Independent States] member countries, with Russia playing the leading role.

The currency exchange rate is a significant element of foreign trade policy. The strategy, implemented up until now, of raising the real exchange rate [of the ruble] has led to a more than sixfold decline in the competitiveness of domestic products during the past four years. As soon as possible, exchange rate policy must be brought into correspondence with the requirements of ensuring the competitiveness of domestic goods. This implies, in particular, the need for a 20-30% de-

valuation, and subsequent maintenance of the exchange rate in some correspondence with the domestic rate of devaluation of the ruble. In the present situation of a debt crisis, this policy should be designed in tandem with solutions to the problem of decreasing the cost of servicing the domestic debt.

Trade policy should be linked with industrial and structural policy, creating conditions for the development of promising industries, utilization of existing scientific-industrial capacities, and incentives for productive investments. It should be not so much protectionist, as aimed at realizing the competitive advantages of Russia's manufacturing enterprises, especially science-intensive ones. In particular, this implies the introduction of a full-scale system of state support measures for science-intensive exports (state-guaranteed export credits, subsidies for standardization, quality-control and quality-improvement programs, marketing programs, active support through diplomacy, and so forth), as well as the restoration of controllability and efficiency in the system of military-technical cooperation.

8. An active industrial, structural, and science and technology policy is a necessary component of an economic growth policy. It subsumes the following: definition of priorities of long-term technological-economic development, credit privileges, by means of state guarantees, for its implementation, implementation of state investment and science and technology programs, and the cultivation of leading national projects as locomotives for economic growth.

Conditions must be created for the efficient organization of industrial production, the integration of finance capital with industrial enterprises, including through the elimination of contrived limitations on mutual co-ownership between financial and industrial entities, mergers and combinations of enterprises, scientific research, and financial organizations. It is important to stimulate the establishment of finance and industry groups, capable of surviving on their own under conditions of domestic instability and tough international competition; the process of privatization of the remaining state-owned shares of enterprises should be exploited for the purpose of forming an efficient and competitive structure for the organization of industry.

The reorganization of industrial enterprises, including in the defense industry, should be oriented toward the improvement of their competitiveness and the creation of new opportunities for their development, rather than being limited to analysis of their financial condition and bankruptcies, as is the case at present.

A significant element of industrial policy should be state purchases and state guarantees for investments in purchases of domestic-produced capital-intensive equipment (aircraft, ships, agricultural implements, etc.), for subsequent leasing to the companies that use it. There should also be an absolute halt to the use of budget funds to import products, if analogous goods are produced in Russia and the CIS countries.

There should obviously be priority state support for the

conversion of science-intensive industry and incentives for scientific and technological progress, by means of a sharp increase in state subsidies for R&D and the adoption of a real program for structural reorganization of the economy on the basis of new technologies, in which specific priority lines of work are defined and which receives state budgetary and administrative support, as well as the active use of the development budget. An important element of this policy should be the deliberate shaping of coherent reproduction contours for modern macrotechnologies, in order to achieve the maxi-

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mum effect in systematic penetration of the relevant segments of the world market.

Measures should be adopted for the preservation and development of industry's technological potential, including:

- elaboration of Federal programs for the development and dissemination of key technologies of the new technological mode;
- creation of a mechanism to stimulate the transfer of new technologies from the defense industry to the civilian sector;
- identification and support for the development of technologies that will provide Russian companies with competitive advantages on the world market;
- elaboration and implementation of development programs for regions with a high concentration of scientific and technological potential (technopolises and science cities);
- improved functioning of the export control system, an active state policy for the prevention of industrial espionage and the illegal export of promising scientific technologies, and defense of domestic science-intensive firms from unscrupulous foreign competition;
- state-supported creation of infrastructure to facilitate commercialization of the results of R&D.

At the same time, it is necessary to begin the retooling and modernization of those state-subsidized enterprises and branches of industry that are deemed economically ineffec-

tive and do not correspond to the goals of the structural policy being implemented. In regions with a high concentration of depressed industries, it is appropriate to create preferential terms for economic activity and investment, including by the establishment of free economic zones.

Special measures should also be adopted for the preservation of scientific and technological potential:

- protection of state spending on science and incentives for scientific and technological progress, against devaluation and cuts, and fixing of the portion of budget spending, allocated for R&D, at no lower than 3% of GDP;

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*There should obviously be priority state support for the conversion of science-intensive industry and incentives for scientific and technological progress, by means of a sharp increase in state subsidies for R&D and the adoption of a real program for structural reorganization of the economy on the basis of new technologies.*

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- incentives for innovation activity, such as state support to risky start-up projects for promising innovations;
- a transition from the financing of scientific institutions, to financing R&D on a competitive basis, in accord with priority lines for formation of the new technological mode;
- preservation of the information infrastructure for scientific research work, support for the network of science and technology libraries, subsidies for spending by scientific research organizations on the use of information networks and databases and on the purchase of scientific literature from abroad;
- support for the functioning of testing units, experimental devices, and pilot production;
- active involvement of the scientific potential of CIS countries, in the implementation of priority lines of scientific and technological progress;
- subsidized spending on the protection of intellectual property and the establishment of intellectual property rights, in Russia and abroad.

The entire economic policy of the state should be oriented toward realization of the competitive advantages of the Russian economy. World experience with successful structural economic changes shows that support for those areas of the national economy, which can be drivers of economic growth

on a world-market scale, is a key aspect of structural reorganization.

Implementation of the above-mentioned measures will create favorable overall conditions for a positive shift in the economic situation and for overcoming the crisis. But, in and of themselves, they will not break the vicious circles by which the depression is perpetuated, as described above, which will undercut the positive effect of the proposed measures and continue to exert a depressive influence on the national economy. To break those vicious circles will require strong initiating impulses, capable of abruptly shifting the current conjuncture and redirecting money flows into the productive sector. Special measures for this purpose are proposed below: measures to stimulate investment activity (introduction of investment accounts, with the deployment of development institutions); stimulation of aggregate demand by the directed activation of state purchases and a restitution program for citizens' savings; a system of measures to dedollarize the economy; establishment of order in the area of state property.

### **Special measures**

1. Measures to stimulate investment activity include:
  - introduction of a special regime for the channeling of enterprises' depreciation allowances and funds that are tax-exempt because they are earmarked for investment purposes, through a system of investment accounts, where use of the funds accumulated in such accounts is limited exclusively to capital construction and equipment purchases;
  - restriction of the emission of securities exclusively to raising funds for productive capital investment, which must be accumulated in investment accounts;
  - creation of special development institutions, which provide financing for investment projects on preferential terms, and enjoy state support in the form of state guarantees, the ability to utilize the population's resources that are on deposit in the Sberbank [state Savings Bank], and the management of companies' investment accounts;
  - active exploitation of the development budget, and the credit guarantees that it provides, for the purpose of attracting private investment in production;
  - exemption from taxes, for any profits of enterprises that are used for purposes of investment and R&D, and are entered in investment accounts;
  - channeling of monetary emission through the system of investment accounts or investment contracts with commercial banks, meaning the mandatory "cycling" of additional emitted monies through productive investments, before they appear on the consumer market;
  - restructuring of the state debt, by means of paying off previously issued bonds through investment accounts.

Introduction of this system of measures will make it possible to organize the return of capital to the productive sphere, and to establish control over money flows, preventing capital

flight out of the productive sector, back into speculative operations and abroad. Certain shortcomings in the system of investment accounts are justified by the absence of any other realistic proposals for a cardinal increase in investment activity, under present conditions of economic disintegration. These shortcomings may be partly compensated by flexible mechanisms for organizing the circulation of monetary resources in investment accounts, including market mechanisms for their conversion into regular rubles.

**2.** Stimulation of aggregate demand. Under conditions of very low capacity utilization in industry (around 40%) and productive enterprises' virtually total loss of circulating capital, a transition toward economic growth presumes the adoption of a system of measures to stimulate aggregate demand. These measures should be linked, in their direction, with the priorities of industrial and structural policy, and should be economically highly efficient. They should provide for the stimulation of consumer demand and a targetted activation of state purchases.

**2.1.** The stimulation of consumer demand includes raising real wages and restitution of the population's savings.

The increase of labor remuneration requires the strict enforcement, as well as improvement, of labor laws, and also includes measures to expand employment and utilize industrial capacities, in the framework of the industrial, structural, and investment policy. It is important for the expansion of consumer demand to be achieved through purchases of domestic, not imported goods, which requires appropriate measures to protect the domestic market, above all against the dumping of poor-quality goods and other forms of unscrupulous competition.

A powerful lever for expanding consumer demand and thus increasing the utilization of production capacities, lies in a properly organized restitution program for the population's savings. For this purpose, the use of citizens' savings in the Sberbank, restored in correspondence with the purchasing power of their mid-1991 deposits,<sup>4</sup> should be restricted to three purposes: purchase of domestically produced consumer durables; investment in housing or production; payment of a certain portion of housing and utilities debts. In each of these areas, there will be a registration of payments, for the purpose of monitoring the correspondence of their aggregate volume to the planned limits on the increase of the money supply or consumer demand. The supply price of the relevant products should be fixed in advance. Simultaneously, limits are to be introduced on where Sberbank credit resources may be allocated, those having been increased as a result of the restoration of the population's savings. Their utilization should be restricted to investment in the productive sphere, in accord with the established structural policy priorities. For this purpose,

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4. In the first phase of Russia's "reforms," 1992-93, quadruple-digit annual inflation rates and the devaluation of the ruble by an order of magnitude wiped out the value of these savings deposits.

they should be restricted to investment accounts, with a ban on their sale and limitation of inter-bank credits to the provision of credits to authorized investment banks and development institutions.

Organized in this way, the restitution program for citizens' savings makes it possible to rapidly reduce real budget spending as against the paid-off state bonds, as well as to return a portion of these funds to the budget, which will be the result of the general expansion of economic activity and, consequently, the tax base. In parallel, it becomes possible to economize on budget resources, by replacing them with

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a program of housing and utilities subsidies, by the reduction of unemployment, and the increase of citizens' incomes.

The program for the restitution of citizens' savings may become a key lever for shifting to economic growth and a socially oriented market economy, as well as an instrument for the consolidation of society, which is extremely important for ensuring social stability and a transition to social partnership, which are necessary for the stable development and prosperity of society.

**2.2.** The expansion of state demand should be linked with the natural functions of the state (defense, social protection, education, health care), as well as with the solution of problems of economic development, not affordable for the private sector (science, transportation and telecommunications infrastructure, the power industry). Within this, it is crucial that there be a strict ban on the purchase of imported products with budget funds. State purchases should also correspond to structural and industrial policy priorities, and should have a high multiplier effect, stimulating economic growth.

The effectiveness of special measures to activate state demand and provide for the structural reorganization of the economy, depends to a decisive degree upon the correct choice of priorities.

From the standpoint of science and technology, the selected priorities should correspond to promising directions

for establishing the new technological mode and for timely preparatory work for the next one.

From an economic standpoint, state support for efforts to carry out the priority lines of work should be characterized by two most important features: 1) to have a significant radiating effect, improving the general economic environment and the conditions for developing business activity; 2) the ability to initiate the growth of business activity in a broad range of branches of industry, involved with priority types of production, i.e. to have a multiplier effect, generating a spreading impetus for the growth of demand and of business activity.

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*From the standpoint of production, state incentives should bring about growth of the relevant enterprises' competitiveness, such that, starting at a certain moment, they can take their own trajectory of expanded reproduction on a world market scale, playing the role of "locomotives of growth" for the economy as a whole.*

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From the standpoint of production, state incentives should bring about growth of the relevant enterprises' competitiveness, such that, starting at a certain moment, they can take their own trajectory of expanded reproduction on a world market scale, playing the role of "locomotives of growth" for the economy as a whole.

From a social standpoint, implementation of the priority directions of the economy's structural reorganization should be accompanied by an increase in employment, growth in the real wages and skill levels of the working population, and a general improvement of the people's welfare. It goes without saying, that the selection of the priority directions should take into account the preparatory work already done and the competitive advantages, which there are objective possibilities to develop.

Among the priority directions, implementation of which under appropriate state programs meets the above-indicated criteria, are the following, in particular:

- development of biotechnologies, sharply raising the efficiency of the agroindustrial complex;
- development of new microelectronic technologies, which make possible a rapid increase of the competitiveness and efficiency of domestic machine-building;
- renovation of the civil aviation fleet, whose obsoles-

cence has reached a critical level; the relevant possibilities exist for producing a new generation of airliners to replace it;

- renovation of equipment at electric power stations, where obsolescence is approaching critical limits, including modernization of nuclear power plants;
- modernization of management systems in rail transport, as well as creation of efficient management systems for mixed carriage freight;
- production of up-to-date means of flexible automation and mechanization for agriculture;
- development of up-to-date transport junctions: sea-ports, airports, railway stations, highway interchanges—these make it possible to substantially improve the speed and reliability of mixed carriage deliveries, to create conditions for the introduction of modern delivery-management systems using the "just-in-time" principle, which is critically important for developing enterprises of the new technological mode, and for expansion of interregional and international production cooperation;
- development of housing construction based on the latest technologies;
- development of information infrastructure on the basis of modern satellite and fiber-optics communications systems, and cellular phone communication in cities;
- modernization of the non-productive sphere of the economy on the basis of the most up-to-date domestically produced equipment (diagnostic devices for medicine, computer technology for the education system, and so forth);
- the active use of state purchases of the very latest equipment, to be leased in order to accelerate productive capital renovations;
- development of the space services sector, support and development of competitive advantages in the area of rocket technologies and space exploration;
- improvement of the environment through the use of modern, ecologically clean technologies.

3. Dedollarization of the economy includes measures to strengthen control over currency, which means the decisive application of existing sanctions for the violation of currency laws, as well as strict enforcement of limitations on the acquisition of foreign currency—exclusively to pay on import contracts and other legal currency operations. It is necessary to impose severe limitations on the importation of foreign currency in cash (the present influx amounts to \$1-2 billion per month), at the established norms for physical persons, as well as to ban such operations for all juridical persons except the Central Bank of Russia.

A complex of measures must be carried out to strengthen the position of the ruble on the domestic market and in international transactions. In particular, mandatory sale to the Central Bank of all foreign currency earnings by exporters should be instituted, with the gradual elimination of enterprises' foreign currency accounts. Simultaneously, it is appropriate to lift restrictions on the export of rubles, and their acquisition by



non-residents, while ensuring their convertibility for current operations. There should be incentives for the use of rubles to pay for exports from Russia, and as a reserve currency in the CIS and Eastern European countries.

Insofar as this process, in essence, will mean the replacement of one component of the total money supply (foreign currency) by another (rubles), its implementation should be supported by a ruble emission, equivalent to the volume of foreign currency collected into Central Bank reserves, plus the additional ruble demand for purposes of paying for exports from Russia and forming currency reserves in CIS countries. This emission will be non-inflationary, because it will not lead to an increase in the total volume of the money supply (its "dollar" part will merely be reduced, while the ruble part grows). For the state, this process will mean a net increase of currency reserves and an increase in revenues from their placement abroad.

The potential summary impact of the replacement of dollars by rubles, in domestic and foreign payments, as well as in foreign currency savings on the Russian market, is estimated at 250 billion new rubles. The real increase of the ruble component of the aggregate money supply, as a result of dedollarization alone, may reach at least 60 billion new rubles annually in the 1998-2000 period. This means a significant increase in monies available for investment on the domestic market, greatly expanding the potential to increase capital investments and facilitating the lowering of interest rates and resupply of money to the productive sector.

The program of dedollarization of the Russian economy should be coordinated with solving the problem of restructuring the state debt; substantial speculative foreign investments now go into servicing that debt, which exerts great potential pressure on the currency market.

Considering possible sharp fluctuations in demand for foreign currency and its supply, in the course of dedollarization of the economy, it is important to restrain these by fixing the exchange rate of the ruble for a period, while the normative levels for return on investment in circulation and production sectors are being evened out. Therefore, immediately after the transition to mandatory sale of foreign currency, and until a steep reduction in the yield on state bonds takes place, it is expedient to devalue the ruble by a factor of at least 1.5, then fix it or peg it to a basket of freely convertible currencies (above all, to the euro) for at least one year. This will make it possible, on the one hand, drastically to reduce the attractiveness of speculative operations, and, on the other, to ensure a partial restoration of the competitiveness of domestic manufacturers, which, in turn, will mean an improvement of the financial situation in the productive sector, an expansion of opportunities for the sale of domestic products, increased returns on operations in the productive sphere, approaching yields in the sphere of circulation. An additional effect of this operation will be substantial reduction of the cost of servicing the domestic state debt.

4. Incentives for effective property management. The formal transformation of property relations, as a result of mass privatization, has not been backed up by any real economic responsibility mechanisms, which would ensure that economic entities are interested in raising economic efficiency and the long-term development of enterprises. To solve this problem requires a system of measures to regulate property relations.

4.1. An inventory of the results of privatization, with cancellation of any acts that were illegal and obviously harmful

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*Dedollarization of the economy includes measures to strengthen control over currency, which means the decisive application of existing sanctions for the violation of currency laws, as well as strict enforcement of limitations on the acquisition of foreign currency—exclusively to pay on import contracts and other legal currency operations.*

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to the country's economy, or that threaten national security interests, as well as deals in which state property was acquired, but the obligations assumed are not being fulfilled, and with a final definition of property rights with respect to the remaining enterprises.

4.2. Firm protection of legally acquired property, and a cardinal improvement in the effectiveness of the judicial system's work in this area.

4.3. Introduction of state control of land transfers through a system of land banks; speedy completion of the drafting of land legislation.

4.4. Introduction of a strict system of responsibility for the efficient management and handling of state property.

4.5. Tightening of standards for paid officials, with respect to responsibility—before shareholders, employees, and the state—for the efficient management of corporate property. There should also be legal provisions for the participation of the representatives of labor and of small shareholders in the governing bodies of joint-stock societies, especially in large privatized enterprises.

Implementation of the above-listed measures and lines of economic policy defines a way out of the depression, onto a new trajectory of economic growth, ensuring that the above-mentioned guidelines can be followed.

## Shubeilat arrest targets Jordan, threatens Middle East

by Muriel Mirak-Weissbach

Laith Shubeilat, the independent Islamist opposition figure in Jordan, has been arrested and imprisoned for the third time in six years. As was the case in his prior terms of detention in 1992 and 1995, this time, too, the event is a political barometer of the turbulence engulfing the Hashemite Kingdom. It is the leading edge of a process threatening to destabilize the country and the region.

### The facts of the case

Shubeilat was arrested on Feb. 20, after having delivered a Friday sermon at a mosque in the city of Ma'an, south of Amman. Following his arrest on his way home, about 100 persons staged a demonstration, in defense of Iraq, which at the time was under the threat of an international military strike. During the unauthorized demonstration, security forces fired tear gas into the crowd, and one man was killed. The death ignited further protests in the days following, and the city was put under a virtual state of siege for a week. Many demonstrators were arrested, later to be released.

Shubeilat, who was not part of the demonstration, was arrested, reportedly on grounds that he had been the cause of the protest action. He was jailed in the Juweideh prison in Amman (as on previous occasions), and has been held there since. He has had access only to his lawyers, and has received one visit from his son. His wife and other visitors are not allowed to see him. He is being held with violent criminals, assassins, and rapists, and is forbidden to exchange words with any prisoners.

As of this writing (March 17), he has not been served any formal charges. It is expected that he will be accused of incitement to riot or insurrection, and tried before a military tribunal, which may threaten him with a prison term of three to five years.

### The background

In the weeks leading up to the incident, the Jordanian political climate was seething with rage, at the likely prospect that neighboring Iraq would be again the target of a military strike, orchestrated by the British, who intended it to be carried out by the United States. On Feb. 6, a demonstration in support of Iraq had been planned in Amman, but was postponed one week, during which time Prime Minister Majali's government issued a ban on any and all demonstrations, regardless of the issue. The ban was respected. Only in Ma'an, where Shubeilat was explicitly invited to speak, did demonstrations break out. It is highly likely that the well-known opposition figure was deliberately lured to the area, as part of a set-up to have him arrested. Ma'an, it should be added, is a center of tribal support for King Hussein; thus, the outbreak of violence was interpreted as a challenge to the authority of the King, who personally visited the area, in an attempt to quiet it down.

Why Shubeilat? Most immediately, it was Shubeilat who had led the political opposition to military action against Iraq, insinuating that Jordan would be not only passive in such an event, but actually part of the operation. Shubeilat, in addition, had just prior to the escalation of tensions, visited the Iraqi capital. There he had been received by Saddam Hussein, and had very expeditiously arranged with the Iraqi President, the release of almost 100 Jordanians, who were being held in Iraqi jails on charges of black-market smuggling. Shubeilat had accompanied the freed Jordanians back to Amman, and been greeted like a hero. The government had been negotiating long and hard—and unsuccessfully—with Baghdad for their release; Shubeilat arranged the deal in the blink of an eye. It must be stressed that it was no mean feat; earlier, a group of Jordanian businessmen caught dealing on the black

market in Iraq had been convicted and executed, despite the protests of the government.

The message which the spectacular operation sent back to Amman—and throughout the Arab world—was that this maverick opposition figure could negotiate more effectively for Jordan than its official government representatives. It also, of course, acknowledged gratitude for everything Shubeilat had done, in defense of the Iraqi cause.

### More complex factors

Yet, helping to free Jordanian citizens could scarcely be construed as a crime, to be punished through arrest and detention. There are other, more complex factors which must be considered, to put the puzzle together.

Shubeilat's arrest did not occur in a vacuum, but in the immediate context of the Iraq crisis, and more broadly in the final gasps of the Middle East peace process. Since the ascension to power of Israeli Prime Minister Benjamin Netanyahu in June 1996, every paragraph of the Oslo Accords of

1993 has been systematically violated, and the entire treaty with the Palestinians ripped to shreds. Palestinian Authority President Yasser Arafat himself has lamented that the process "is almost breathing its last." In Jordan, which signed a peace treaty with Israel in 1994, the population has seen its hopes for a "peace dividend" dashed, as no economic progress has been forthcoming. None of the promised projects has been realized, and instead of prosperity, the Jordanian population (itself 60% Palestinian) has experienced only rising inflation and dwindling income. The International Monetary Fund (IMF), which has been directing Jordanian economic policy for years, has ravaged the country's standard of living, while the continuing sanctions against Iraq—which was Jordan's number-one trading partner—have further undermined the largely trade-based economy.

The leading voice raised against these policies, both the "normalization" with an Israel dedicated to expanding settlements, confiscating Palestinian land, provoking violence, and trampling on peace accords, and the continuing austerity of

## Who is Laith Shubeilat?

Laith Shubeilat is a 54-year-old Jordanian, from a prominent political family. His father was close to the King, serving as a minister as well as an ambassador for several years. Laith Shubeilat entered Parliament as an independent Islamist in 1989, when democracy was reintroduced in Jordan. He was elected by an overwhelming mandate, from voters in the Third District of Amman. His was the highest total for any single candidate, which made him the most popular personality in the country, outside the royal family.

In 1992, Shubeilat was arrested and charged with plotting the overthrow of the monarchy. He was accused of belonging to a group called Shabab al Nafeer (the Vanguard of Islamic Youth). After a railroad trial before a security court, which involved testimony by phony witnesses, he was convicted, and sentenced to 20 years of hard labor. Later, he was freed under the terms of a general amnesty granted by the King.

Shubeilat refused to run for reelection in 1993, in protest against the change in electoral laws, which he denounced as a blow to Jordan's democratic system. After thus leaving a political career, Shubeilat was elected president of the Jordanian Engineers Association (JEA), the most powerful of the dozen or so professional unions. From that position, he has become the de facto leader of the opposition to "normalization" with Israel.

Shubeilat has campaigned in Jordan, and throughout the Arab and Islamic world, against the policies of the International Monetary Fund, and for a new, just world economic order. Although he differs with Lyndon LaRouche on Middle East policy, Shubeilat campaigned for LaRouche's liberation and exoneration, organizing broad support throughout the Muslim intelligentsia; he spoke on LaRouche's exoneration at a seminar in Washington, D.C. in April 1997. Shubeilat has also been active in efforts to forge an ecumenical alliance



*Laith Shubeilat*

of the monotheistic religious traditions, on the basis of a commitment to the principle, that all men are created in the image of God the Creator. He has lectured widely throughout the world, and has authored numerous articles and essays.

Friends of Shubeilat worldwide are demanding his release through calls to the Jordanian embassies.

the IMF, was that of Shubeilat. In fact, the former member of parliament had been arrested in 1995 on charges of lèse-majesté and undermining the stability of the national economy and currency. The basis for these rather unusual charges, was his having spoken out publicly, in his capacity as chairman of the powerful Jordanian Engineers' Association (JEA), against the IMF measures being pushed through at the time, including privatization of state-controlled industries. Shubeilat challenged the government's attempts to muzzle the professional unions, which represent upwards of 35,000 professionals—lawyers, doctors, engineers, and so on. The unions, especially the JEA under his leadership, had assumed the role of a political movement, which, Shubeilat said, had been “leading the struggle of the professionals, and the masses behind them, to protest the low living standard, rise of prices, collapse of wages, and the handing of the professionals to foreign investors as cheap labor.”

### **A fight for economic development**

Shubeilat also attacked the Middle East and North Africa (MENA) summit held in Amman in November 1995. The economic gathering, which included Israel for the first time, was supposed to be the forum for economic projects which would give substance to the peace agreements. Instead, the conference signalled the apotheosis of free market economic

theories for the region. “At the Amman summit,” Shubeilat charged, “foreign investors celebrated this economic feast and the victory of the slogan, ‘profit is the absolute value,’ while every other concept of development which has been coupled with the term ‘social development,’ a nice name which they mention to the unions, falls apart around that slogan. They do this in order to prevent anyone from stopping their looting the country. If the state truly says that the political conflict is gone and the means of conflict now is economic, then the unions must have a political representation because they are the people's biggest partner and the most targeted by the conservatives, market economy capital, and the International Monetary Fund.” Shubeilat identified the IMF's demands for lifting subsidies on basic foodstuffs as particularly dangerous, and cautioned that food riots could be provoked by such a move.

While a prisoner in 1996, Shubeilat ran for reelection as president of the JEA and in February won a mandate of 81%, which testified to his extraordinary popularity as *the* opposition leader. In June, when the Israeli elections placed Netanyahu in power, the immediate deterioration of the political atmosphere seemed to confirm everything Shubeilat had warned against. In August, the Jordanian government lifted subsidies on bread prices and—precisely as Shubeilat had warned—riots broke out. In November, the King himself travelled to Shubeilat's prison to free him, in a gesture widely interpreted as the beginning of a shift in Jordanian economic and foreign policy.

By 1998, the situation Shubeilat had denounced two years earlier, had worsened. Now, there was the threat of renewed aggression against Iraq, which would create a far more serious crisis than during Desert Storm, both economically and politically. Now, there could be no illusions about a peace with Netanyahu. Thus, the set-up in Ma'an and the arrest.

A further complicating factor in the deteriorating situation in Jordan, is uncertainty regarding the health of the King, who has been travelling frequently abroad for medical treatment. Although it has been formally established that his brother Crown Prince Hassan is to be his successor, there are persistent rumors of a power-struggle which has broken out in the royal family and its entourage.

By keeping Shubeilat, the charismatic leader of the opposition, in prison, the Majali government is desperately trying to keep the lid on a rapidly boiling pot. But, the more tightly it closes the lid, the more powerful the explosion will be. Any further aggravation in tensions between Israel and the Palestinians, is sure to ignite an explosion, in the West Bank, Gaza, and also Jordan. If fullscale conflict erupts there is the danger that the infamous “Sharon Plan” would be implemented, whereby the Palestinians in the West Bank would be forcibly expelled into Jordan, and Jordan would become “Palestine.” The entire region would go up in flames. The most sensible move to make now, before it is too late, would be to free Shubeilat.

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# Ugandan voters deliver warning to Museveni

by Linda de Hoyos

Opponents of military dictator Yoweri Museveni scored a significant victory in local elections held in Uganda in March. Members of the opposition Ugandan People's Congress and the Democratic Party won local offices in key districts in both northern and southern Uganda.

In the capital city of Kampala, in the area of Buganda, once considered a Museveni stronghold, candidates backed politically by the opposition Democratic Party of Paul Ssemogerere took four out of five sub-county district races.

The election victories are a clear signal that the African "new leadership" being put forward by the British Ministry of International Development, along with its supporters in the United States such as Assistant Secretary of State for Africa Susan Rice and Rep. Donald Payne (D-N.J.), is not being readily welcomed by the citizenry of Africa. Despite Western propaganda to the effect that the Uganda of Yoweri Museveni is the "model" for Africa, obviously Uganda's citizens do not think so—as they hand Museveni electoral defeats, despite the fact that the single-party elections do not meet the U.S. Project Democracy standards of "free and fair."

## A stark contrast

The complete lack of international attention to the civil opposition movement in Uganda, stands in stark contrast to the focus on Kenya, for instance, where the opposition—often calling for violence—has received nearly universal support in the pages of the Western press.

The gains made by that political opposition in Uganda which has rejected violence as the method by which to overturn Museveni, also points to the gains to be had through a civil process that educates the voter—rather than terrorizing him.

In Uganda, under Museveni's National Resistance Movement (NRM), the opposition parties run candidates under extreme duress—under a cloak of international silence, without funds or means to raise them. Although the Ugandan Constitution guarantees civil freedoms, all political activity by political parties other than Museveni's military-backed National Resistance Movement is forbidden by civil law. Contestants for elections must run on the basis of "individual merit" only. All local offices are controlled through

the "councils" of the NRM.

In elections this year, opponents of the Museveni regime were forced to enter local elections as members of the NRM, and were designated as "multipartyists." But throughout the country, the NRM apparatus loyal to Museveni used its powers as Resident District Commissioners, District Intelligence Security Officers, Sub-County Intelligence Officers, and other members of the Local Councils to harass and intimidate "multipartyist" candidates and their supporters.

Museveni hopes to lock this system of terror and intimidation into place with a referendum in the year 2000 which calls for the complete abolition of all political parties, and for which the political parties will not be able to campaign in order to defend their very existence!

## Ogwal supporters beaten in Lira

In one case in point, Member of Parliament for Lira Municipality Mrs. Cecilia Ogwal of the Ugandan People's Congress was forced to spend the night in jail on March 13 during the mayoralty race in Lira, when 24 of her supporters were summarily arrested, thrown into jail, and then beaten by men from the national Internal Security Organization. The youth were arrested for allegedly creating "chaos" in the city. Mrs. Ogwal said she spent the night in the station to ensure that none of her supporters were taken away and either "disappeared" or murdered. Mrs. Ogwal said that there were gunshots all over Lira town on the night of arrests, fired by men from a car. One Ugandan observer noted that in the north, where Museveni's war against the rebel Lord's Resistance Army has been permitted to drag on for 12 years, there is such general insecurity that violence against political candidates can be perpetrated with impunity.

Ogwal has also filed a suit against Deputy Resident District Commissioner Musa Ecwero for threatening her life in his office on March 13. "It will not be long before I finish with you," said Ecwero to Ogwal, as he was physically restrained by others from physically assaulting Ogwal.

Nevertheless, despite the harassment and intimidation, Ogwal's multi-party mayoral candidate Jaspar Omodo Anyoru won the elections, with a hefty 65% of the vote.

In Kampala, the multipartyists won the majority of seats on most of the Local Council levels. In Mpigi, also in the south, the multipartyists took 20 out of 32 sub-counties in the race for Local Council III (part of the NRM national structure). Multipartyists also did well in Masaka and Bushenyi, the latter being Museveni's home district. In Lira and Gulu, in the north, the multipartyists had a very strong showing. Statistics for rural areas are not yet finalized.

One reason given for the voter rejection of the Museveni regime was Museveni's "militarist approach, which has taken a high toll of the country's resources that would have been used to help people in the social sector, for example, education, health, and road construction," as one Ugandan analyst in Kampala put it.

## **BJP's ascent to power worries reformers**

*Like the blindmen of Hindoostan, almost everyone is trying to figure out the outlines of the BJP elephant.*

Come the end of March, the Bharatiya Janata Party (BJP) and its allies, which hold a slender majority in the Parliament, will begin their tenure. What worries people most is the question of what the economic policies of the new government will be. Many say that evaluating future policies of the BJP based on past statements by its party leaders is as difficult and fruitless as reading tea leaves.

The reason for such confusion is simple. The BJP does not have a clearly defined economic policy. It does not seem to have a clear reading of whether the policies adopted by the Congress Party over the decades, and by the United Front only recently, were adequate. If they were inadequate, what, exactly, the BJP thinks was wrong remains a highly muddled issue among its various one-person think-tanks.

For instance, if one has to go by routine statements issued by the Swadeshi Jagran Manch (SJM), a BJP think-tank which promotes indigenization of the Indian economy, it appears that the government will adopt foreign technologies selectively. "Computer chips, not potato chips," is the much-stated one-liner that has been used to express the policy the SJM wants the BJP government to adopt vis-à-vis foreign direct investment.

However, a slightly clearer picture emerges from statements by S.K. Gurumurthy, in a recent interview with a news daily. Though listed only as Convenor of the SJM, Gurumurthy is in reality a political heavyweight in the BJP. In the interview, he said that the BJP government will not welcome in-

discriminate investment from foreign investors. He cited the economic course charted by Malaysian Prime Minister Dr. Mahathir Bin Mohamad as the preferred one. He said that while he admires Mahathir for successfully attracting foreign investment in critical areas, his party would crack down on speculative tactics of financial behemoths such as George Soros. Gurumurthy said his party is intently studying the "Mahathir model" for India.

Heavily criticizing outgoing Harvard-trained Finance Minister P. Chidambaram (whose closeness to the speculators' economists such as Jeffrey Sachs is well known) for having touched "new depths" in bowing and scraping before foreign investors, Gurumurthy made it clear that the BJP leadership is veering toward the view that an aggressive nationalist undertaking to regain economic self-reliance is the need of the hour.

Such a statement from Gurumurthy has put on alert a host of policy influentials eager to toe the International Monetary Fund (IMF) line on reforms. Bureaucrats from the Commerce and Finance ministries, who relentlessly push the custom-made liberalization policies originated by the IMF, have openly expressed fears that such a stand will weaken India's "bargaining position" with the World Trade Organization (WTO). In other words, like the IMF and Sachs, the mandarins of Delhi's North Block have already vetoed the BJP's stated inclination to channel foreign direct investments into specific sectors.

At the same time, the captains of Indian industry, all of whom are highly

politicized, and who built bridges to the outgoing United Front government and the Congress Party before it, have moved quickly to demand that the BJP adopt "sane" policies. The Confederation of Indian Industry (CII), which was close to the United Front government, has immediately set forth a 75-day agenda for the BJP government.

Included in the CII agenda are such politically contentious issues as disinvestment of select profit-making public sector companies, so as to reduce government equity to less than 50%; opening up the insurance sector for private sector participation; immediate reorganization of the Security Exchange Control Board (SEBI), to revive the capital market; and announcement of a new industrial policy to meet the new demands of globalization and competition.

The BJP has also been attacked by the pro-reformers for having included in its manifesto its stated policy "to ensure a day-to-day working relationship with Indian industry through a structured forum like MITI [Ministry of International Trade and Industry] in Japan." This has been ridiculed by the pro-reformers as a half-baked idea. They point out that MITI's success has been based on coercion, and as the "Big Bang" financial deregulation reform is about to be undertaken in Japan, the MITI phenomenon will be dismantled.

Another analyst, however, explained why the BJP's admiration of the MITI-led "miracle" is not liked: It will invite censure from the WTO. Diplomatic sources dismiss the BJP's statements as "a lot of rhetoric and posturing." They point out that the WTO process is irreversible, and it is highly unlikely that India would risk defaulting on obligations. They also point out that many countries, including China, are doing their very best to gain membership in the WTO.

## Samuel Ruiz caught with his cassock up

*A simple dose of the truth about the "Chiapas conflict" has sent the Zapatista terrorists into hysterics.*

**G**uadalajara Cardinal Juan Sandoval Iniguez, with his characteristic pungency, recommended on March 6 that Bishop Samuel Ruiz, the true political commander of the Zapatista National Liberation Army (EZLN) in Chiapas, terminate his role in the Chiapas peace negotiations, in order to facilitate the talks. "Only the government and insurgents [should] negotiate. The fewer negotiators, the more things get done," he said.

The very next day, a spokesman for the Mexican Bishops Conference (CEM), Bishop Onésimo Cepeda, trying to color things in Ruiz's favor, declared that it was up to the bishop himself "to judge if his mission as collaborator in solving the conflict is over." However, the CEM spokesman had to admit that the expulsion of foreign priests who are collaborators of Ruiz "has not damaged church-state relations." It is a known fact that elements inside the Vatican would like to halt Ruiz's provocative activities.

The public debate over the Chiapas conflict has grown increasingly intense, and is rapidly redefining political camps.

The National Action Party (PAN) accused the Party of the Democratic Revolution (PRD) of Cuauhtémoc Cárdenas, of being "clearly interested in seeing the conflict remain unresolved until the year 2000, so that afterwards a candidate of hope and peace can appear." The PRD joined with the Zapatistas' chieftain "Marcos," to lyingly accuse the government of preparing a "military solution" to the conflict. Arturo Nuñez, the leader in the Chamber of Deputies of the ruling

Revolutionary Institutional Party (PRI), hit the nail on the head, when he charged that the PRD "frequently assumes the political expression of the EZLN, or stated another way, the EZLN is the armed expression of the PRD."

The cause of all this commotion is a statement issued by Government Minister Francisco Labastida Ochoa on March 1, titled "Enough Already!" It was issued to the political parties in the Chamber of Deputies, which in turn have their representatives on the Pacification and Settlement Commission (Cocopa). Through Labastida, the government proposed to Cocopa a joint elaboration of constitutional reforms that exclude the EZLN's demands for territorial division.

The government's four basic points have been summarized in the form of questions to the EZLN that can be answered with a simple "yes" or "no": 1) Do you or do you not agree to respect the three levels of government: Federal, state, and municipal? 2) Do you or do you not agree that Indian habits and customs should evolve within the municipal environment, without fracturing existing municipalities? 3) Do you or do you not agree that communal Indian property should not imply abolition of private property, community property, or national property? 4) Do you or do you not agree that "Indian groups" which seek to be owners of mass media, should respect the Law of Radio and Television?

This questionnaire drove the Zapatistas mad. Several newspapers have reported that "Marcos" counter-

attacked by ordered acts of provocation in various parts of Chiapas, using Indian contingents headed by some 15 foreigners, who carry out "revolutionary expropriations" or collect "war taxes" from other Indian communities.

But it is Samuel Ruiz himself, and his immediate cohorts, who are most desperate.

Michel Chanteau, the French priest recently expelled from Mexico by the Zedillo government because of his "unauthorized activities" in Chiapas, has initiated a propaganda campaign from Paris warning that "a new attack" against Ruiz is being planned. According to Chanteau, "someone" told him that there is already "someone trained to carry out" the attack. Given the perversity of the EZLN and its foreign fellow-travellers, one cannot overlook the possibility that they might carry out an attack on themselves, to then blame the government for the deed.

In contrast to the French priest's vague charges, the Mexican government is known to have expelled Chanteau for carrying out overt political activities in the EZLN's favor, which is explicitly forbidden by the Mexican Constitution, in addition to practicing "a religion alien to Catholicism."

This news service has extensively documented the pagan, Satanic nature of Samuel Ruiz's brand of religion, as well as the fact that he is openly organizing in favor of a schismatic, indigenous "autochthonous church" within Catholicism.

Religion aside, in San Pedro Chenalhó, Chiapas, where Ruiz's French pal Chanteau ran his parish, he was affectionately known as "Papa Chanto," because he allegedly slept with various Indian women and had numerous children with them. According to various reports, Chanteau was known throughout the area as the "Impregnating Priest."

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# International Intelligence

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## ***Anti-nuclear mob holds Moscow press conference***

The shades of Bertrand Russell's anti-science "experts" held a press conference in Moscow on March 16, to kick off what they described as an international campaign against the use of nuclear technologies. Their scapegoat was the use of mixed oxide nuclear fuel in power plants. MOX fuel, as it is known, is a means of cheaply recycling plutonium from dismantled weapons systems by combining it with uranium, for use in nuclear power plants.

The speakers also denounced Russia's nuclear agency, Minatom, for being "authoritarian," because it is building nuclear plants throughout Russia, allegedly without regard to the effects the plants will have on the population. Speakers complained about joint U.S.-Russian plans to build a recycling facility for spent MOX fuel in Russia, claiming that weapons-grade plutonium had been produced in a nuclear power plant that used MOX fuel.

Academician Alexei Yablokov also whined that non-governmental organizations do not have the money to carry out the feasibility and safety studies, and that therefore Moscow should be prepared to spend \$20 million on each feasibility study for each nuclear power plant. In addition to Minatom and Russia, France was also singled out for its heavy use of nuclear energy, as well as its use of MOX fuel.

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## ***Australia and China strengthen defense ties***

Chinese Defense Minister Gen. Chi Haotian, accompanied by three generals, met with Australian political and military leaders, during a visit to Australia in February. General Chi's main concern was to alleviate Australian fears of any "hidden imperial agenda" in China's military expansion, and to encourage bilateral and multilateral security relationships which are stable, transparent, and predictable, "based on mutual trust and common interest." China will also be sending a number of modern warships on

a goodwill visit to Sydney in the next few months, the first in nearly 30 years, while the Australian Defense Minister, Ian McLachlan, will make his first visit to China in May, depending on when Australia's Federal elections take place.

The rapport between Australia and China has made a dramatic turnaround since two years ago, when McLachlan publicly endorsed "U.S. aircraft carrier diplomacy" in the Taiwan Straits.

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## ***Vatican expresses 'deep sorrow' over Holocaust***

The Vatican Commission for religious relations with Judaism has published an unprecedented document on the Shoah, as the Nazi Holocaust is referred to in Hebrew. The document is part of a diplomatic effort by the Vatican to strongly reinforce the idea of ecumenical peace among nations based on justice, love, and the absolute respect for the dignity of man. The document is centered on the notion of historical as well as moral memory, and calls for forgiveness in light of the tasks that face humanity in the next millennium.

In his foreword, Pope John Paul II recalls with "a sense of deep sorrow the sufferings of the Jewish people during the Second World War." He says, "The crime which became known as the Shoah, remains an indelible stain on the history of the century that is coming to a close." As we prepare for the Third Millennium of Christianity, the Pope says, the Church is "aware that the joy of a Jubilee is above all the joy that is based on the forgiveness of sins and reconciliation with God and neighbor."

Going back 2,000 years, to the pagan Roman Empire, the document refers to "those ideologies that gave rise to the neo-pagan Nazi belief. At the same time, theories began to appear which denied the unity of the human race." Anti-Semitism "is based on theories which are contrary to the constant teaching of the Church on the unity of the human race and on the equal dignity of all races and peoples, and the long-standing sentiments of mistrust and hostilities that we call anti-Judaism."

Of a piece with Nazism's anti-Semitism was its profound hatred of Christianity: "The Shoah was the work of a thoroughly modern neo-pagan regime. Its anti-Semitism has its roots outside of Christianity and, in pursuing its aims, it did not hesitate to oppose the Church and persecute its members also."

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## ***Peres: Peace comes through development***

Former Israeli Prime Minister Shimon Peres, visiting Australia on the invitation of the United Israel Appeal (UIA), spoke to an invited audience of 3,600 people on March 10, where he laid out his plan for "a new Middle-East of economics instead of arms."

"The way to peace with the Palestinians is through economics. We have to help them build an economy. And because they won't get much land—land is limited for all of us, because soon a population the size of Australia will have to fit into a country the size of Israel—that means the development of modern technologies and science-based industries," Peres said. "In order to keep a Jewish state, you have to have a Palestinian state. Most people in Israel realize this. I believe a Palestinian state is in the being. I want to see two states, but I would not like to see two economies, one of them depressed. The more equal they are, the better neighbors they will be."

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## ***Former booster blasts Museveni 'new leadership'***

René Lemarchand, the dean of East African studies in the United States, who trained many of the operatives now in the region, told a Carnegie Endowment seminar in mid-March that U.S. policy toward East Africa is heading for disaster. The idea that the United States should attach itself to Africa's "new leadership" around Ugandan President Yoweri Museveni, he said, will bring about the ruin of U.S. policy toward the continent.

Lemarchand's analysis echoed the Open Letter to President Clinton by former Ugan-



**YEVGENY ADAMOV** will replace Viktor Mikhailov as head of Russia's Atomic Energy Ministry. As Mikhailov's deputy, Adamov shares his support for Russia's RBMK reactor. Mikhailov will become First Deputy Minister, and will head a council of 50 senior nuclear scientists. He told the *New York Times* that his new position will relieve him of the burden of "finances, wages, and budgets."

**THE ARAB LABOR** Conference, meeting in Luxor, Egypt on March 8, expressed "full support for, and backing to Egypt, in facing up to terrorism, which has become an international phenomenon." The final statement urged Arab countries to "lay down a unified Arab strategy to counter it," and expressed support for Sudan's territorial integrity and sovereignty, and efforts to end the war.

**'MO' MOWLAM**, Britain's Northern Ireland Secretary of State, described for ABC News in New York on March 17, what British policy was on whether there would ever be a united, independent Ireland: "We would like the people of Northern Ireland and of the island of Ireland to choose, by consent, what they want. When they do, we would accept it."

**WAHHABISECT** adherents in the Russian region of Dagestan, fled to neighboring Chechnya this month, following a Dagestani government crackdown on the fundamentalist Islamic movement. Mukhu Aliyev, the chairman of Dagestan's parliament, said that the ban on Wahhabi activities is designed to prevent further terrorist activity and to protect the republic's Sunni Muslim majority.

**ARMENIA'S** first round of Presidential elections has not, as of this writing, produced a majority candidate, which would allow the country to by-pass a run-off election, set for March 30. Twelve candidates were in the running, six of whom have issued a statement condemning the way of officials who are subordinate to Prime Minister and acting President Robert Kocharian conducted the elections.

dan President Godfrey Binaisa. Lemarchand did not expose the British sponsorship of the Museveni warlords—e.g., Rwanda's Paul Kagame, Congo's Laurent Kabila, and Burundi's Pierre Buyoya—but in other respects, he picked up the *EIR* analysis of this grouping, a fact that could not have been missed by his audience.

Lemarchand attacked the Museveni "new leadership" as tribally based and interested only in the survival of the majority, not of their respective nations as a whole. He said the plan behind Museveni's expansionism was to build a "Tutsi empire." He said that the current analyses of the genocide in Rwanda were wrong—since the genocide began with Uganda's October 1990 invasion of Rwanda, and that during the genocide of the spring-summer of 1994, the Rwandan Patriotic Front also murdered thousands of people. He also said that it was obvious that the RPF and Ugandan forces had murdered thousands of refugees in eastern Zaire in 1996-97.

Lemarchand said that the United States must foster a process of truth-seeking, justice, and reconciliation, rather than coat-tailing the Tutsi leadership. He said that it was also necessary to examine the U.S. role in Rwanda, and questioned the actions of some of his "students," who are now in the Defense Intelligence Agency. This is believed to be a reference to Richard Orth, military attaché in the U.S. Embassy in Kigali, who is a stooge of Roger Winter of the U.S. Committee on Refugees.

## *Susan Rice goes after Nigeria, silent on Uganda*

Election of any military leader in Nigeria is "unacceptable" to the United States, proclaimed U.S. Assistant Secretary of State for Africa Susan Rice to the Brookings Institution on March 12. Rice was referring to the likelihood that Nigerian Head of State Gen. Sani Abacha will win the Presidential elections.

The will of Nigerian voters notwithstanding, Rice glowered that "U.S. and international efforts have failed thus far to restore democracy and respect for human rights in

Nigeria. . . . Let me state clearly and unequivocally to you today that an electoral victory by any military candidate in the forthcoming Presidential elections would be unacceptable. Nigeria deserves a real transition to democracy and civilian rule, not another military regime dressed up in civilian clothes."

Although President Clinton will meet several African heads of state when he visits Kampala, Uganda on March 23, Rice made almost no mention of the country in her speech. She had also been noticeably tight-lipped on Uganda during Congressional hearings a week earlier, neglecting to endorse a "new leadership" for Africa, as Secretary of State Madeleine Albright had done in December. Reportedly, the decision to make U.S. involvement with Uganda low-key, came after Africans raised a row after Albright's pronounced endorsements of Museveni et al., including from South Africa.

## *Chechnya President appeals to Britain for help*

In remarks to the London-based Royal Institute of International Affairs, Chechnya President Aslan Maskhadov said he had told former British Prime Minister Margaret Thatcher that he would like an international commission to examine the extent to which Russia has kept to its promises on Chechnya. Citing Winston Churchill's observation that Russia has no tradition of living up to its commitments, Maskhadov said he did not expect the commission to find that it had. Maskhadov repeated his argument that Chechnya is an independent country: "To those who say we have to break away from Russia, we say: 'Find a single document which says we are legally part of Russia. Such a document does not exist.'"

Meanwhile, a British Foreign Office official told Maskhadov that London cannot consider providing any assistance to Chechnya until there is a settlement of the conflict, and until all hostages are released. Maskhadov told the BBC that he has done everything he can to secure the release of the hostages and will continue to do so.

## Starr's latest assault on Clinton is backfiring

by Jeffrey Steinberg and Edward Spannaus

On March 9-10, Grand Inquisitor Kenneth Starr and his team of Justice Department career prosecutors were facing an existential crisis, in their four-year drive to destroy the Presidency of William Jefferson Clinton. Over the previous weekend, James McDougal, a pivotal, albeit highly discredited witness against the President, had died of a heart attack, in the Federal prison medical center in Fort Worth, Texas, creating a hole in Starr's already pathetically weak case against the President.

David Brock, once the most ferocious of the Clinton attack-dogs at the Richard Mellon Scaife-funded, and Hollinger Corporation-directed *American Spectator*, had publicly issued an apology to the President for his participation in a politically motivated smear campaign against him, an apology which called into question the reliability of some other important witnesses against Clinton, including several Arkansas state troopers who are shared assets of Starr and the Paula Jones legal team.

*EIR's* just-published exposé of the "Get Clinton" propaganda salon—run out of the home of former Justice Department official Theodore Olson in posh Great Falls, Virginia—had seriously damaged Starr's credibility among a growing stratum of average Americans, and among Washington, D.C. political insiders.

And a growing number of Congressional Republicans, painfully aware that the "Monica Lewinsky affair" had only enhanced President Clinton's popularity with the American public, began back-tracking from their unabashed support for the Starr effort. This back-tracking was evident in statements by Senate Majority Leader Trent Lott (R-Miss.) and Senate Judiciary Committee member Arlen Specter (R-Pa.) on the March 8 Sunday television talk shows.

Having survived the two-front assault of the Lewinsky

affair and the British-Israeli effort to draw him into a pointless military confrontation with Saddam Hussein, President Clinton was, furthermore, taking the political offensive, preparing new peace initiatives in the Middle East and showing the kind of leadership in the renewed Balkan crisis that had unhinged his London political enemies in the past.

While there is no transcript available of the secret deliberations of March 9-10 at the Office of the Independent Council, circumstantial evidence suggests that the Starr team determined to launch a counter-offensive, aimed at swamping the President, once more, with lurid allegations of sexual misconduct and perjury that would seize domination of the front pages of the press, and put Starr's almost fatally derailed attack on the Presidency back on track.

As was the case in mid-January 1998, when the "Lewinsky eruption" first occurred, Starr's plan of attack involved coordination between the Office of the Independent Counsel and the Paula Jones legal team:

- On Thursday, March 12, Kathleen Willey was chauffeured to an appearance at the Federal courthouse in Washington, D.C. by a team of Starr prosecutors, where she testified before the Clintongate grand jury. The same day, CBS News "60 Minutes" announced that Willey would be giving an exclusive interview on Sunday, March 15.

- On Friday, March 13, Paula Jones's attorneys dumped 700 pages of material in Federal court in Little Rock, full of lurid details, charging a broad pattern of sexual misconduct by Clinton. To believe the fantasm of charges contained in the Jones filing, would be to believe that the President spent most of his waking hours stalking women—not attending to the duties of Governor of Arkansas, and, later, President of the United States.

- The following day, March 14, the American media duti-

fully regurgitated, with little comment or independent corroboration, all of the filth spread against the President.

- On Sunday, March 15, with a great deal of advance promotion, “60 Minutes” aired a 45-minute segment, largely made up of the interview between Kathleen Willey and Ed Bradley, in which the Virginia Democratic Party fundraiser charged that she had been the victim of a sexual assault by President Clinton inside the White House.

### **A witness ‘beyond reproach’?**

Even before Kathleen Willey’s “60 Minutes” interview was broadcast, the almost-uniform line was going out in the news media: “This one is different. Kathleen Willey is very credible. She’s not part of the right-wing conspiracy. She has no reason to lie.” And, by the next morning, the national media were in a frenzied attack upon the President, making no effort to even review the veracity of the Willey tale.

But, within days, Willey’s story, and her credibility, began to crumble. It has now come out that Willey has given contradictory testimony in previous legal proceedings, that she is heavily in financial debt, that an arrest warrant was issued for her in late 1993 for harassing an attorney who represented clients whom her husband had defrauded, and that she kept up a friendly relationship with Bill Clinton long after the alleged harassment incident, which she claims left her feeling angry and betrayed.

Willey said on “60 Minutes” that she had gone to see Clinton on Nov. 29, 1993, because of her desperate financial straits. In her deposition in the Paula Jones case two months earlier, Willey testified that she had told Clinton “we were having a financial crisis and my husband had asked me to sign a note for a large amount of money.”

But, when she was questioned about the events of that day during a 1995 deposition, Willey testified that she had not had *any* conversations with anyone in Washington about her financial troubles. And in sworn answers to written interrogatories in 1995, Willey stated that she “did not talk with anyone at the White House about the money, the paper, or the threats.”

On top of this, a former longtime friend of Willey’s, Julie Hiatt Steele, has made public an affidavit executed in mid-February, in which Steele describes how Willey asked her to lie to a *Newsweek* reporter to corroborate Willey’s later story that she had been “groped” by Clinton. In spring of 1997, Willey called Steele and asked her to meet with *Newsweek* reporter Michael Isikoff. Willey “told me that she needed my help to corroborate a story she had just told Mr. Isikoff,” Steele states, adding that Willey wanted Steele to say that Willey had come to Steele’s house immediately upon her return from Washington, and that Willey had told her that President Clinton had made sexual advances to her. “She repeatedly assured me that any discussion with Mr. Isikoff would be ‘off the record’ and that it would be all right if I lied to him.”

Just a few days before Willey’s March 15 “60 Minutes”

interview, her lawyer was in discussions with a book publisher about her proposed autobiography. Her lawyer Daniel Gecker was asking \$300,000 for Willey’s story—the same amount he was seeking from the supermarket tabloid, the *Star*. “It seemed to be a number that he was sort of fixated on,” said the *Star* editor.

Moreover, the White House has released a set of letters and notes, which show a continuous stream of correspondence from Willey to Clinton or his office, both before and after the alleged “groping” incident. Two days after the alleged sexual advances, Willey phoned for Clinton and left a message, the note of which said: “Kathleen Willey — she called this morning and said you could call her anytime.” Less than one month after the alleged incident, on Dec. 22, 1993, Willey wished Clinton a “wonderful Christmas” and thanked him for the opportunity to work in the White House.

The correspondence includes Willey inviting Clinton to an engagement party for her daughter in September 1995—hardly the way one would respond to a sexual predator. Most of the handwritten notes, up through late 1997, are signed: “Fondly, Kathleen.”

### **Willey’s legal problems**

The people who were defrauded by Kathleen Willey’s late husband, Edward Willey, Jr., say that Kathleen Willey still owes them about \$400,000. In 1993, faced with IRS tax liens of over \$500,000, Ed Willey, a zoning lawyer, took \$274,000 from a condemnation trust fund being held for clients. In desperation, he and Kathleen signed a promissory note on Nov. 15, 1993, promising to pay the full amount two weeks later. His body was found in a wooded area on Nov. 30, 1993, supposedly a suicide.

The creditors sued Kathleen Willey for the full amount, and she was ultimately held liable for it by Virginia’s highest court. According to one of the creditors, Richmond produce dealer Anthony Lanasa, she has not paid any of the money. “I ain’t got a nickel yet,” Lanasa is quoted as saying. “She did everything she can to evade me, and she knows she owed it. She had a life insurance policy [and] she gave it to her kids so she wouldn’t have to pay me.”

According to court papers, what happened was this: To avoid having her share of the proceeds of the life insurance policy attached by creditors, Willey “disclaimed” the benefits, which then went to her children—who are using the funds to support her. Lanasa and his sister claimed that this was a fraudulent transfer of funds, but the Virginia Supreme Court ruled that under the Virginia statute in question, it was lawful. However, it is quite possible that Willey still faces an IRS investigation or other legal problems, arising out of the transfer of the insurance proceeds, and the fact that she is nevertheless drawing from those funds in what she claims are “loans.” This could well have been a point of legal vulnerability, used to persuade Willey to cooperate with Federal prosecutors and to change her story to make accusations against the President.

# Carrying the John Quincy Adams tradition into the 20th century

by Jeffrey Steinberg

During the middle decades of this century, particularly during the period from the Franklin Delano Roosevelt Presidency through the first decades of the Cold War, a group of American historians and political scientists attempted to revive the great American System foreign policy tradition of President John Quincy Adams, the author of the Monroe Doctrine, and one of America's greatest diplomats. While their efforts were flawed in some respects, they made an invaluable contribution to American foreign policy, by producing a body of published works on the history of American diplomacy, creating several centers of genuine inter-disciplinary scholarship, and serving in government and training others who went on to serve their country with distinction.

The efforts of this ad hoc group—men like Samuel Flagg Bemis, Nicholas John Spykman, Arthur Whitaker, and Edward Mead Earle—helped shape American foreign policy during the FDR era. The influence of this group was somewhat revived during the Kennedy and Reagan Presidencies. Bemis and Spykman were behind the establishment of an inter-disciplinary program in international relations at Yale University, during the 1930s and '40s. Whitaker created a similar program at the University of Pennsylvania; and one of his protégés developed a similar curriculum at the University of Virginia. Earle headed a World War II-era military study group at Princeton University, and he taught at the Army War College, in Carlisle, Pennsylvania.

The fact that their work was largely trampled upon by the legions of New Left, Frankfurt School-trained revisionist historians, who came to dominate the university social science departments by the 1980s, in the name of “feminism,” “political correctness,” and “cultural relativism,” in no sense diminishes their accomplishments.

On the contrary, as the first signs of a reverse paradigm shift now surface, repudiating the irrationalism, the falsification of history, and outright anti-science biases of the past 30 years, it is particularly appropriate to look back on the efforts of these scholar-patriots, to pick up the threads of American foreign policy, as it truly evolved, free from the distortions of the New Left and Conservative Revolution schools of virulent anti-Americanism.

## Twin evils

During 1936-54, the above-cited authors published a series of books, aimed at providing a framework for a national-

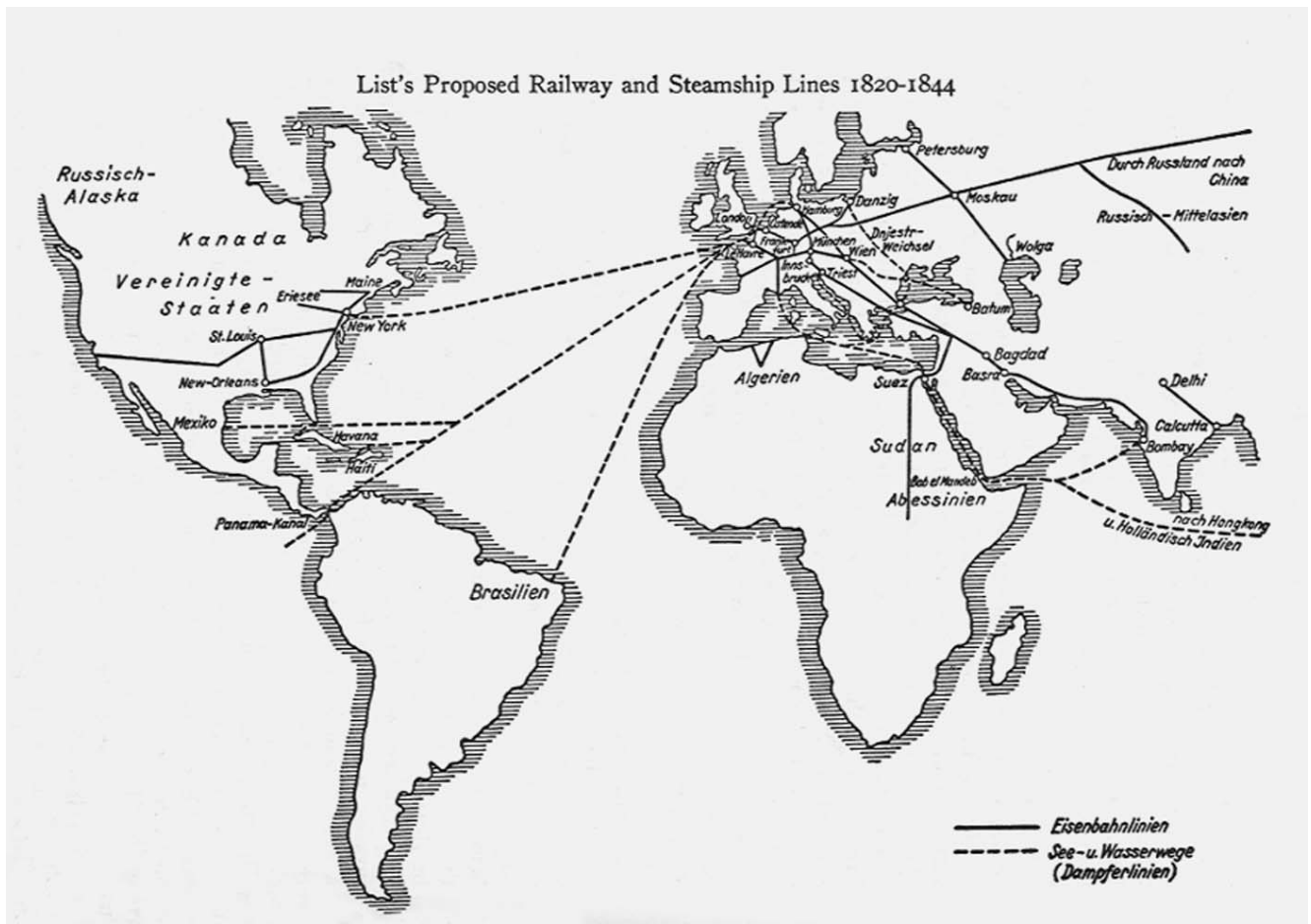
interest American foreign policy for World War II and the postwar period. The foundation for all of their works was the American System, of Washington, Hamilton, Mathew and Henry Carey, and so on. In 1943, Edward Mead Earle came out with the first edition of *Makers of Modern Strategy: Military Thought from Machiavelli to Hitler*. In that volume, he included an essay that he wrote, titled “Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power,” in which he polemicized against the idea that Smith was a pristine advocate of free trade; rather, he developed a concise history of Hamilton's and List's roles in devising the national system of political economy, first in the newly formed United States, and, later, in Germany.

Of Hamilton, he wrote: “He was the most influential single member of Washington's cabinet, roaming far afield from his own duties as Secretary of the Treasury. During the years 1789-1797, he probably did more than any other single person to formulate the early national policies of the United States, some of which came to have the binding force of tradition. His tragic death in 1804, when he was only 47, was a national disaster.”

Earle had a similar appreciation of List as a patriot of both the American and German nation-states. He wrote, “Hamilton's influence on Friedrich List is evident in much of what the latter wrote. And in view of List's association with the protectionist groups in the United States, including the economist Mathew Carey, there can be little doubt that List considered the *Report on Manufactures* a textbook of political economy.”

In the realm of foreign policy, all of the works of these historians begin with the groundbreaking efforts of John Quincy Adams, during his tenure as Secretary of State in the Monroe administration, in crafting the Monroe Doctrine. Samuel Flagg Bemis, for example, was the author of a Pulitzer Prize-winning biography, *John Quincy Adams and the Foundations of American Foreign Policy* (1949). Arthur Whitaker wrote *The Western Hemisphere Idea: Its Rise and Decline* in 1954, warning that the successful revival of the Monroe Doctrine in FDR's “Good Neighbor Policy” was in jeopardy of being undermined in the postwar period. Whitaker was on the State Department policy-planning staff during World War II.

Each of these authors, in their own way, warned against the twin evils that had reared their heads at various moments



This map of global rail and steamship corridors, first devised by Friedrich List, was published as part of Earle's article on Smith, Hamilton, and List in the 1971 second edition of his textbook, *Makers of Modern Strategy*. The trans-Eurasian and North American transcontinental rail corridors, the rail lines running from Berlin to Baghdad and from Paris to Vladivostok, conform precisely to the proposals put forward by Lyndon LaRouche in his *European Productive Triangle and Eurasian Land-Bridge* plans. When Earle died, a third edition of his book was published, minus the chapter on Smith, Hamilton, and List.

during the history of the American republic: on the one side, isolationism, and, on the other, what Whitaker called “national imperialism.” In *The Western Hemisphere Idea*, Whitaker wrote: “What supplanted isolationism in the United States was not a simple two-way schism between those who were for it and those who were against it, but a three-way split, for the anti-isolationists themselves were already tending to fall into the two groups that were to take definite shape in the 20th century. In one group were the internationalists, in the other, the advocates of increased participation in world politics on a go-it-alone basis—in common parlance, the national imperialists.”

Whitaker placed Theodore Roosevelt in the latter camp. Franklin Roosevelt, in contrast, was the champion of the internationalist camp, by which Whitaker meant the advocates of Monroe's notion of a community of principle among sovereign nation-states.

Whitaker was not using the term “internationalists” as a synonym for world federalism. On the contrary, as the post-World War II era saw the emergence, for the first time, of pow-

erful forces openly advocating world government, this group led the charge against them. Thus, Nicholas John Spykman, in his 1942 war-mobilization tract, *America's Strategy in World Politics*, was already warning against the danger of “world federation,” in the following terms: “World federation is still far off. This is perhaps just as well because the world-state would probably be a great disappointment to its advocates and very different from that they had anticipated. Brotherly love would not automatically replace conflict, and . . . international wars would become civil wars and insurrections.”

For this group of American scholars, the two beacons of American foreign policy were the efforts of John Quincy Adams to set the United States on a course of mutual respect and support for national emancipation of all peoples from the European colonial yoke; and Franklin Roosevelt's strong revival of that policy, through his initial efforts to revive “Good Neighbor” relations with all of the states of the Western Hemisphere, great and small; and, his later passionate commitment to bring an end to all forms of colonial rule, as the direct fruit of America's indispensable role in defeating Hitler.

## Africa trade act hinges on IMF, globalization

On March 11, the House passed the "African Growth and Opportunity Act" by a vote of 233-186. The bill would establish a U.S. trade policy toward sub-Saharan Africa which is contingent on African nations accepting globalization policies, including privatization, free trade, and unrestricted foreign investment. Under "additional factors," the bill also requires consideration of "the extent to which such country is in material compliance with its obligations to the International Monetary Fund and other international financial institutions," as a condition for participation. The IMF has destroyed Africa.

House International Relations Committee Chairman Ben Gilman (R-N.Y.) said the bill "promotes economic reform through free trade initiatives, creation of equity and infrastructure funds, the refocusing of development assistance, and the creation of special advisory committees on sub-Saharan Africa for the Import-Export Bank and the Overseas Private Investment Corp."

Supporters of the bill mischaracterized conditions in Africa. Ed Royce (R-Calif.) said that U.S. aid has been a problem, because "it has often sustained what have been proven to be unsustainable economic policies in Africa." He said that Uganda, which is "probably the most aggressive reformer in Africa, has been growing at 10% for several years running. Uganda is now being called the African lion." In fact, the Ugandan economy has disintegrated under British dictator-puppet Yoweri Museveni (see *EIR*, Aug. 8, 1997, "The Ugandan Hell Behind London's Museveni Myth").

Reps. Linda Smith (R-Wash.) and Donald Payne (D-N.J.) added a provision to include "whether or not such

country is cooperating with the United States in efforts to eliminate slavery in Africa," as a criterion for participation. Making clear that the amendment is aimed at Sudan, Smith included for the record an article from the Feb. 22 *Chicago Tribune* based largely on "evidence" provided by the British-run Christian Solidarity International.

The bill was opposed by members worried about the effects of free trade on the U.S. textile industry. One of them, Dan Burton (R-Ind.), claimed that the trade provisions in the bill would benefit China, and should be changed because of human rights concerns. Otherwise, there was no serious discussion of actual conditions in Africa resulting from International Monetary Fund policies and British geopolitics.

In the Senate, Majority Leader Trent Lott (R-Miss.) said on March 16 that the bill probably would not be taken up before May, and that it might even languish until the fall.

## GOP runs 'do-nothing' Congress, Dems charge

The Democratic leadership in both houses has continued to voice complaints that the Republicans are running a do-nothing Congress. On March 12, House Minority Leader Richard Gephardt (D-Mo.) said, "We are not really moving on the issues" which constituents are concerned about. He said the current session has gotten off to a slow start, and "what we hear from the Republicans is they have a kind of a strategy this year of no hits, no runs, no errors. They kind of feel like, you're in the lead, you sit in the lead." Gephardt added, when asked about rumors that the House GOP was preparing for a possible impeachment inquiry of President Clin-

ton, that "if you look at what the Republicans have done over the last year, it doesn't give you a lot of confidence that they have much of an agenda other than attacking Democrats."

Senate Minority Leader Tom Daschle (D-S.D.) stated that "rather than give us the chance to pass our agenda, which we've tried to make very clear and specific as we can, they'd rather do nothing."

Republicans describe the 105th Congress as "historic," and have preferred to ride the wave of its perceived success, most especially the reported \$8 billion surplus in the FY 1998 budget. Several indicated to the March 16 *Washington Post* that they feel safer doing nothing. Rep. Joe Scarborough (R-Fla.) said, "We've decided to sit on our lead. . . . The leadership has learned its lesson about what happens when this Congress crosses Bill Clinton."

While other Republicans claim they do have an agenda, Senate Majority Leader Trent Lott (R-Miss.) has threatened to delay the Senate debate and vote on the NATO expansion treaty if the Democrats filibuster the Coverdell education savings account bill. He said that the Congress "has a very large agenda," but getting that work done depends on cooperation from the White House.

## Gelbard condemns Milosevic on Kosova

U.S. Ambassador Robert Gelbard, President Clinton's special representative for the implementation of the Dayton Peace Agreement, testified on Kosova, the ethnic Albanian region in Serbia, before House International Relations Committee hearings on March 12. He said that the Clinton administration is "focusing intensely on imme-

diate diplomatic efforts to reduce tensions and stop the violence. This includes bringing every tool we have to bear to ensure that [Serbian] President [Slobodan] Milosevic understands the consequences of his actions." Gelbard appeared with Undersecretary of Defense Walter Slocombe, to give an update on the Balkans.

Referring to the so-called Kosova Liberation Army (UCK), which evidence indicates is a creation of Serbian and British intelligence, he said, "At the same time, we have and will continue to condemn terrorist actions no matter what form or no matter where else in the world."

Committee Chairman Ben Gilman (R-N.Y.) quoted former British Prime Minister Margaret Thatcher as once having said that "one man's terrorist is another man's freedom fighter," and asked Gelbard if the actions of the UCK were "more of a defensive measure than offensive measure." Gelbard answered, "I agree it's a symptom of the climate" that has been created in Kosova, but the terrorist acts by the UCK have "provided an excuse for Milosevic. . . . There is no question that the overwhelming brutal, repressive . . . actions . . . committed by the Federal Republic of Yugoslavia here, are responsible for the tragedy we have at hand right now."

The day before, the committee adversely reported out a concurrent resolution that would direct the President to pull U.S. troops out of Bosnia, on the basis of the 1973 War Powers Act. The resolution, sponsored by Tom Campbell (R-Calif.), states that it "does not necessarily reflect any disagreement with the purposes or accomplishments of such Armed Forces." The committee opposed the resolution by a vote of 22-16, but was required to report it out, according to House rules. On March 18, the resolution was defeated in the House.

## **N**orth role in cocaine trafficking questioned

Lt. Col. Oliver North (ret.) should be questioned about his role in the trafficking of crack cocaine in U.S. cities in the 1980s, said Norman Dicks (Wash.), the ranking Democrat on the House Intelligence Committee, during hearings on March 16. CIA Inspector General Frederick Hitz appeared before the committee to answer questions on the CIA Inspector General's report on CIA involvement in drug trafficking, which was part of the Contra operations, a scandal that was ignited by the "Dark Alliance" series in the *San Jose Mercury News* in August 1996.

Dicks asked Hitz if his office had made any attempt to question North. Hitz replied, "No, we confined our interviews to CIA officials. We felt we knew what he would testify to on the basis of his appearances before the [1987] Iran-Contra committee."

Dicks then asked if North had ever been asked about Contra drug trafficking. Hitz admitted that no, North never had been asked to testify on that.

Dicks retorted, "It seems to me like he's one person we really ought to interview." Dicks suggested that North be called before the Intelligence Committee (which is conducting its own investigation), and asked about his knowledge of the Contras' drug-trafficking activities.

As *EIR* has reported, Vice President George Bush, for whom North worked, was in charge of the cocaine trafficking into the United States, not the CIA.

Maxine Waters (D-Calif.), who gave a half-hour statement slamming the IG's report as "not credible" and "fraught with contradictions," dominated the hearing. She carefully avoided any evidence that might lead in the direction of Bush. She even lied

that former Drug Enforcement Administration agent Celerino Castillo, who had been based in El Salvador at the time, had documented that it was the CIA that ran the cocaine into California, when, in fact, he had shown that it had been run out of Bush's office.

## **S**enate completes work on transportation bill

On March 12, the Senate passed the Intermodal Surface Transportation Efficiency Act (ISTEA II) by a vote of 96-4. The Senate also agreed with House Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa.) to increase overall funding authorization in the bill to \$214 billion.

There remain disputes over funding allocation formulas in the bill, especially from so-called "donor" states that pay more funds from fuel tax revenues into Federal coffers than they receive back in Federal highway funds. Supporters of the bill claim that it guarantees to every state at least 91¢ for every \$1 the state contributes to the Federal transportation trust funds. However, Sen. Arlen Specter (R-Pa.) said that Pennsylvania is one of two states that lose money compared to the original ISTEA bill, which prompted both him and Rick Santorum (R-Pa.) to vote against it.

In the House, there is also opposition from the budget cutters, such as House Budget Committee Chairman John Kasich (R-Ohio), who complains that the bill busts the 1997 budget deal between Congressional Republicans and the White House. However, the bill has broad bipartisan support, suggesting that Shuster will have no trouble defeating Kasich's opposition.

# National News

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## 'Hit-man' Ewing eulogized Starr victim McDougal

Hickman Ewing, the deputy to Whitewater prosecutor Kenneth Starr who pressured James McDougal into changing his testimony to incriminate Bill Clinton, delivered a eulogy at a graveside service for McDougal on March 13 in Arkadelphia, Arkansas. McDougal died of a heart attack on March 8, while being held in solitary confinement.

"I'm here today to give tribute to Jim McDougal as a man, a man who was a very colorful man, who lived a very interesting life," Ewing said. Ewing said that he often talked to McDougal three times a week, after McDougal was sent to prison about 18 months ago.

Some suggestion of the means by which Ewing, described in the article as an "evangelical Christian," worked McDougal over, is suggested by Ewing's disclosure that he and McDougal had both read the book *I Was Wrong* by former televangelist Jim Bakker, who cites his conversations with Watergate plumber—and infamous "prison born-again convert"—Chuck Colson.

Although McDougal had no immediate family, some relatives objected to Ewing's speaking as inappropriate. "The pressure of being put in jail, the confinement and the humility of being put in prison—it killed him," said one relative.

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## Clinton urges stronger engagement with China

President Clinton briefed the press on the reasons behind his decision to move up his forthcoming trip to China from November to June, during a March 13 "photo op" with visiting Thai Prime Minister Chuan Leekpai. "Ambassador [James] Sasser and other advisers of mine have been arguing for months—literally, for months—that I should move up the trip to China. . . . I felt that, after listening to them, that they were probably right. . . . that our relationship with China is so important that we needed to try to build on it and make some more progress."

The ostensibly ideologically opposite

D.C. dailies, Sun Myung Moon's *Washington Times* and Katharine Graham's *Washington Post*, responded to the President's announcement by blaring "revelations" of "secret negotiations" between China and Iran for the transfer of "hundreds of tons of material used in enriching uranium to weapons grade." Such an exchange would contravene the October agreement between Presidents Clinton and Jiang Zemin, which included a Chinese pledge to halt assistance to Iran's nuclear programs, which, in turn, allowed the administration to lift a ban on sale of U.S. nuclear reactors to China.

In fact, as the President described to reporters, Beijing investigated information regarding low-level discussions "about the possibility of some transfers which would have been inconsistent with that agreement. We followed through on it. The Chinese followed through on it and kept their agreement to the letter. So, I think that the revelation in the paper this morning is further support for the proposition that we should be engaged with China. This Prime Minister [Chuan Leekpai] and other Asian leaders who are friends of the United States have urged us to build a stronger constructive partnership with China."

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## BAPAC charges Starr with 'subpoena abuse'

The Los Angeles chapter of the Black American Political Association of California (BAPAC) urged the Los Angeles County Board of Supervisors and the City Council to join with them in adopting a resolution "clearly stating" that Kenneth Starr "should resign his position as Special Prosecutor," in a statement on March 13. At a press conference the previous week, BAPAC had demanded Starr's resignation.

The BAPAC resolution points out: "Instead of protecting the Constitution, Kenneth Starr has chosen to abuse his subpoena powers. This abuse is . . . an attempt to harass those persons who choose to exercise their constitutionally protected right of free speech."

Last year, BAPAC had set things in motion on the Contra drug-running scandal with a press conference and resolutions after

the *San Jose Mercury News* came out with revelations that the George Bush-Oliver North Contra funding operations, had included introducing crack-cocaine into U.S. cities. BAPAC was successful in getting resolutions passed by the Los Angeles City Council, the County Board of Supervisors, and the cities of Pasadena, Inglewood, Long Beach, Compton, and Carson. It is planning to do the same with the Starr resolution.

The LaRouche weekly *New Federalist* is regularly distributed at BAPAC meetings, and LaRouche associates spoke at its state convention last year.

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## Washington area put on heightened terror alert

Some public tours of the Pentagon were abruptly cancelled on March 11, after the FBI informed Pentagon officials that there was "a heightened alert status" over "possible terrorist activity aimed at installations in the National Capital Region." The FBI did not elaborate the warning, but Pentagon spokesman Glenn Flood told Associated Press, "We've been notified by the FBI of possible terrorist activity in the next couple of days." According to AP, security was being tightened on the Washington Metro subway system.

Among other concerns, April 19 marks the fifth anniversary of the Waco massacre, and the third anniversary of the bombing of the Murrah Federal Building in Oklahoma City. Nor should it be forgotten that, from the moment that President Bill Clinton was inaugurated, the British launched a "strategy of tension" terror war against the United States, that included more than 17 threats or attempted attacks on the President and members of the First Family or the White House grounds.

In the context of the FBI alert, it should be also noted that the March 11 London *Times* reported that on March 10, as the President was near New York's JFK Airport, Air Force One disappeared from all radar screens for 24 seconds. At no time was Air Force One in any danger; however, the Federal Aviation Administration has ordered a probe to determine what went wrong with the radar system.



**VIRGINIA** Democrats in the 10th Congressional District will hold a convention on May 16, rather than a primary, to choose their candidate, who will seek to unseat 18-year incumbent Republican Frank Wolf. Already last year, LaRouche Democrat Nancy Spannaus announced her availability to run against the Anglophile Hunt Country's "kept Congressman."

**CALIFORNIA** Democrat Lois Capp won a special election to fill the Congressional seat vacated by her late husband. The Republican candidate, a Conservative Revolutionist, got the GOP nomination over a moderate Republican, through a big-bucks intervention by Gary Bauer and the Christian Coalition, to the disgust of party regulars.

**PRESIDENT CLINTON** hosted a St. Patrick's Day meeting with all the parties to the Northern Ireland peace talks, including Sinn Fein's Gerry Adams and British special representative on Northern Ireland Mo Mowlam. He has also indicated that he might visit Ulster in May, when he attends the G-7 summit in Birmingham, England.

**OSAMA BIN LADEN**, the Saudi Daddy Warbucks for many of London's "Islamic" terrorists, faxed a threat to the U.S. embassy in Islamabad, according to Pakistan's *The News* of March 17. The threat stems from reported recent intensive FBI efforts to locate Bin Laden, who is believed to be in Kandahar, Afghanistan, under Taliban protection.

**SEN. ARLEN SPECTER** and Senate Majority Leader Trent Lott introduced a non-binding resolution calling on the UN to form an international tribunal to try Saddam Hussein for war crimes. The resolution passed by 93-0. It was modeled on efforts by Baroness Emma Nicholson's British organization, INDICT, which was formed to create a war crimes tribunal against Saddam. Baroness Nicholson is a longtime crony of Baroness Cox and Lord Avebury.

## Sierra Club splits over dispute on immigration

The *Washington Post* of March 7 reported on a growing controversy within the ranks of the Sierra Club, one of the oldest environmentalist organizations, with 550,000 members, over the issue of immigration. The Sierra Club, in early March, launched a mail referendum asking its members to choose whether to reverse a two-year-old board decision for the Club to "take no position" on U.S. immigration levels or policies. It appears that some Club members want the Club to formally oppose further immigration, which they allege contributes to "over-population."

But Executive Director Carl Pope said that if the Sierra Club were to favor reducing immigration levels, "we would be perceived as assisting people whose motivations are racist." Others cited "extremists acting from racial prejudice" as a reason to not take a position, citing as examples California Gov. Pete Wilson (R), and former Ku Klux Klansman David Duke, whose World Wide Web page, they pointed out, links environmental protection with "stopping illegal immigration and almost all legal immigration into America."

## Egyptian diplomat teaches Washington Post a lesson

Ahmed Maher El Sayed wrote a letter to the editor of the *Washington Post*, which appeared on March 13, in response to a Feb. 25 story which reported on the CIA's evaluation of Islamic *fatwas* calling for attacks on Americans, issued by British-based and -run terrorist networks.

The Ambassador pointed out, first, that genuine "*fatwas* are religious opinions and interpretations issued by legitimate religious authorities." Therefore, they can be neither anonymous nor in conflict with Islam, which does *not* condone murder and attacks on innocent people. Second, he points out that the only person whom the *Washington Post* had mentioned as issuing a *fatwa*, is Britain's

own Afghansi moneybags Osama bin Laden, who is not a religious authority. Therefore, what Bin Laden says has no religious standing, but rather, the Ambassador writes, "are criminal instigations as much against his fellow Muslims as against other people. Thus, it is abusive to ascribe any religious character to them.

"I hope that the press and the authorities will be more careful not to confuse Islam with criminal activities of gangs who try to use the name of this holy religion to cover their despicable criminal intentions," the letter concluded.

## Racism behind U.S. probe of Baltimore housing?

Daniel Henson, Baltimore's housing chief, charged on March 11 that racism might be behind a Federal decision to investigate the spending of Federal housing funds here. "Am I the only one who's noticed that the Inspector General has decided to go after three cities only — cities that are run by African-American mayors who happen to be Democrats?" Henson asked.

Speaking at a news conference, Henson said, "I've never claimed racism as being the reason why anybody does anything. But I'm just wondering if anybody else finds it curious. . . .

"This particular office of the Inspector General, if you go back before my time, has a history of doing just that; of going after African-American men in positions of authority in cities." Henson was responding to a report in the *Baltimore Sun* on March 8 that Susan Gaffney, the Inspector General of the Department of Housing and Urban Development (HUD), is preparing to launch criminal investigations in Baltimore, San Francisco, and New Orleans.

Congress added \$9 million to Gaffney's budget last year, to begin investigations in several cities. Rep. Jerry Lewis (R-Calif.), who heads the subcommittee that handles the HUD budget, says Gaffney asked for the money, and picked the cities. She told the subcommittee that she plans to create an Urban Fraud Investigative Team with 20 investigators in each city.

## Editorial

### *Free trade is anti-American*

Nowadays, most people think “free trade” is as American as apple pie. We are taught that for a nation to protect its industry with tariffs is an “unfair” restriction of commerce—and Americans know that if you do something unfair, the umpire will be justified in throwing you out of the ball game. We are taught that free trade strengthens the economy by encouraging the survival of the fittest: If manufacturers in one country produce better, more cheaply than their competitors, the consumer will reap the benefits. Those who reject these apparent truisms are viewed suspiciously as “anti-American,” or even “communist.”

What a shock it is, then, to discover that 170 years ago, the British free-trade school of Adam Smith was scientifically torn to shreds by German-American economist Friedrich List, who proved its fraudulent nature beyond a shadow of a doubt, and established in its stead the American System of political economy. That system was adopted by President Lincoln, making America the greatest industrial power in the world.

We therefore draft Mr. List into service as co-author of this editorial, to expose the British System which he combatted, and which we combat today.\*

List announces his aim as, not just to protect the manufacturers of Pennsylvania, but “to lay the axe to the root of the tree, by declaring the system of Adam Smith and Co. to be erroneous—by declaring war against it on the part of the American System.”

Addressing the ignorance of most Americans on the subject of political economy, List writes:

“I remember an anecdote of a physician, who, finding his patient consulting a medical work about his disease, admonished him to take care not to die of an error in print. So, sir, I would admonish the people of these United States who rely on the celebrated system of Smith, to take care not to die of a *beau ideal*. Indeed, sir, it would sound almost like sarcasm, if in after ages, an historian should commemorate the decline of this country in the following terms:

“ ‘They were a great people, they were in every respect in the way to become the first people on earth; but they became weak and died, trusting in the infallibility—not of a Pope nor of a King—but of two books imported into the country, one written by a Scotchman [Smith], the other by a Frenchman [Jean Baptiste Say]—books, the general failure of which was shortly afterwards acknowledged by every individual.’ ”

The fraudulent nature of Smith’s system, writes List, begins with the very title of his book: *Wealth of Nations*. In fact, the book disregards nations altogether; it deals with the economy from the standpoint of the individual entrepreneur, and of the human race as it would be if it were *not* separated into nations. If the whole world were one nation, free trade would be fine. An Englishman would as readily emigrate to Hungary as a New Jerseyman today emigrates to Missouri. No nation would have reason to fear from any other. Such a state of affairs might be desirable, says List, “but, sir, it is not the state of the actual world.”

In the real world, as List shows, free trade is a weapon used by the British oligarchy against its political opponents. The essence of the British system is to dominate others, “even at the expense of the lives of the citizens, to keep the world and especially her colonies in a state of infancy and vassalage”; the American national economy, on the other hand, aspires only to become *independent*.

The contest between these systems, List writes, may not be decided for several centuries. In the end, history will censure those who ruin their own nations by adopting English free trade, just as “it laughs at Esau for having sold his primogenitive birthright for a mess of pottage rather than to rely on his own power for procuring the means of existence.”

Today, that contest is truly being decided, as many articles in this issue of *EIR* show. The British financier oligarchy has brought the world to the brink of the greatest financial collapse in history. The American System, under the guidance of economist Lyndon LaRouche, is ready to replace it, if the world’s political leaders will only act in time.

\*Quotations are from List’s 1827 letters to Philadelphia’s Charles J. Ingersoll, published in *Friedrich List: Outlines of American Political Economy*, available from Ben Franklin Booksellers, 1-800-453-4108.

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