

# EIR

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Ashcroft Fight Is Really About Fascist Path for U.S.  
LaRouche Advises Asia in 'Smart Investor' Forum  
Bailey: The French Revolution's Ben Franklin

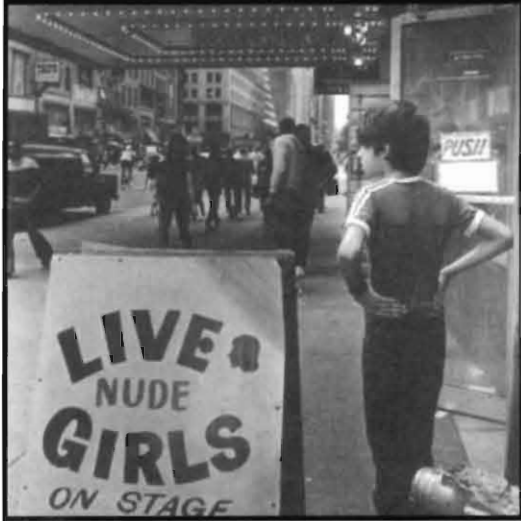
**The 'California Effect' Spreads:  
It's Bush's Policy, or LaRouche's**



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## From the Associate Editor

**F**or the past 30 years, since President Nixon killed the Bretton Woods system by taking the dollar off gold, the United States has survived by looting the rest of the world, especially the former colonial nations. Now, the energy crisis in California brings the issue home to Americans, more starkly than anything that has happened up to now: Are we going to destroy ourselves, too, in order to prop up the bankrupt banking system? Are we going to freeze in the dark, to honor Fed Chairman Alan Greenspan's "free market"?

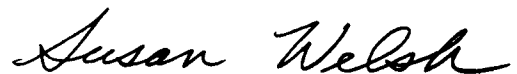
Or, are we going to wake up to the truth of what Lyndon H. LaRouche, Jr. has been telling us? He said it again to *Smart Investor* magazine, in an interview reprinted in this issue: "No matter what you do, or do not do, the present world financial and monetary system is presently in its terminal phase. Wisdom means to accept that fact, and to prepare to take the measures which you would have wished to have taken when this inevitable, early chain-reaction of collapse erupts, very soon."

The details are fully developed in this week's issue:

In *Economics*, we lay out how the California crisis happened, its national and international ramifications, and what must be done.

In *International*, we present exciting initiatives—unknown to most Americans—being undertaken by those whom LaRouche has termed "the Survivors' Club": those nations, especially Asian nations at the moment, that are laying the groundwork for *national survival*, even as the global financial system crumbles. Chinese leader Li Peng's visit to India was a real milestone in this process, and both China and India are taking important initiatives toward Southeast Asia.

But the crucial battle remains that in the United States, to wrest power from the London and Wall Street financier oligarchy that installed George W. Bush in the White House. As LaRouche has warned, *fascism* is on the march now, under the name of "crisis management." In *National*, Edward Spannaus explains how this could happen, and Debra Freeman shows what flanks we must move on now, in order to prevent it.



# EIR Contents

## Cover This Week

*Repairing downed  
power lines.*



### **4 California Energy Disaster: A Failed Economic Policy**

On Jan. 17, the electricity crisis that has plagued California since last Spring, finally resulted in rolling electricity blackouts. This extreme measure was ordered due to a lack of supply, and fear for the integrity of the electrical grid. And, the crisis is spreading throughout the nation. The choice now is, the policies of George W. Bush, whose family has profited from the policies which led to the crisis, or those of Lyndon LaRouche, who would revive President Franklin Roosevelt's approach.

### **7 Texas Bandits and Popular Delusions Hold State of California Hostage**

### **11 Testimony on Secretary of Energy Nomination: Reregulate Energy, and Keep Privateers Out of the Cabinet**

"Testimony to the Energy and Natural Resources Committee, U.S. Senate, in Opposition to the Confirmation of Senator Spencer Abraham as Secretary of Energy," submitted by *EIR* economics experts.

## Economics

### **8 Saudi Minister Yamani: 'Kissinger Was Behind 1974 Oil Shock'**

### **10 U.S. 'Energy Crisis' Slams Manufacturers**

### **15 Energy Crisis Hits America's Poor Hardest**

### **19 Energy Inflation Also Devastates Mexico**

### **21 LaRouche, Other Top Economists, Talk to 'Smart Investor' Magazine**

The Malaysia- and Singapore-based magazine *Smart Investor* invited Lyndon H. LaRouche, Jr. to contribute to a two-part series, with three other prominent economists, on the debate among Asian nations on how to deal with the global financial collapse.

### **26 Business Briefs**

**Photo and graphics credits:** Cover DoD photo. Page 5, EIRNS/Karon Long. Page 6, Washington Public Power Supply System. Page 12, U.S. Army Corps of Engineers. Pages 16, 17, 19, 33, 37, EIRNS. Page 29 (Asian leaders), website of the Japanese Prime Minister's residence. Pages 41, 69, 70, EIRNS/Stuart Lewis. Page 47, [www.arttoday.com](http://www.arttoday.com). Page 50, Library of Congress Prints and Photographs Division. Page 63 (demonstration), EIRNS/Sylvia Rosas.

## International

### **28 Eurocrats Tell Asia at ASEM: Stay on the IMF 'Titanic'**

If Asian nations take the IMF's advice and stay within the current, bankrupt global financial system, they will be signing their own death warrant.

### **30 China Endorses Asian Economic Integration**

### **32 Major Steps Taken To Bolster Chinese-Indian Relations**

### **35 India Prepares To Broaden Its Role in Southeast Asia**

### **36 China Builds on Strong Ties to Southeast Asia**

### **38 Globalized Bank Sector Is Collapsing In Peru**

### **39 Chiluba's U-Turn Is Last Chance for Zambia**

### **40 'Bush Lobby' Plots New Provocations in London**

### **44 International Intelligence**

## History

### **46 Jean Sylvain Bailly: The French Revolution's Benjamin Franklin**

Pierre Beaudry presents the work of a man who, although the Benjamin Franklin of the French Revolution, is today almost completely unknown! So false are the British-dominated historical sciences, that the case of Jean Sylvain Bailly is only one of a number in the history of Europe alone, in which real "Founding Fathers" of sovereign nation-states have become virtually unheard-of, even in their own nations. The case of Bailly is a warning of the crucial importance of studies such as this, if we are to regain the true history of the republican nation-state, and not allow its destruction in a new, "globalized" world empire.

## National

### **62 Ashcroft Fight Is Really About Fascist Path for U.S.**

When Lyndon LaRouche warned that unless put on a very short leash, the Bush Administration would likely move quickly, under the guise of "crisis management," to impose a bureaucratic fascism on the United States, bearing striking similarities to the conditions under which Adolf Hitler seized power in Germany in 1933, some people thought that LaRouche might be exaggerating. However, Bush's drive to ram through his crisis management team has established LaRouche's authority as uncontestable.

### **64 Challenges Continue to Florida Vote**

### **65 Rumsfeld Aims at China, Korea in Hearings**

### **66 Sen. Jesse Helms Gets a New Lease on Life**

### **68 Four Decades of 'Crisis Management': Precedents for Incoming Bush Team**

## Departments

### **25 Australia Dossier** Selling Off the Farm.

### **43 Report from Germany** The Bell Tolls for Joschka Fischer.

### **72 Editorial** A Market Crash Might Save Your Family

## California Energy Disaster: A Failed Economic Policy

by Marsha Freeman

With the Jan. 17 beginning of rolling electricity blackouts in California, the debt crisis gripping that state's deregulated utilities began to threaten banks and investors worldwide, and its extreme energy crisis was already spreading to other parts of the western United States.

The crisis in California is no different than the more general financial crisis infecting nearly every nation in the world, where speculation, in the form of derivatives, junk bonds, exorbitant interest rates, and energy price inflation, is destroying the physical economy.

There is no time left for half-way or "politically palatable" measures to solve either the international or local crises. The only policy that will produce results is the one put forward by economist Lyndon LaRouche: Fully re-regulate vital infrastructure, such as electricity; cancel the disreputable debt that has accrued through hyperinflationary speculation; proceed with an orderly bankruptcy reorganization that allows critical service to continue; and create large volumes of credit to promote investments in public infrastructure.

For California, this may well require invoking the full powers of the national and state governments, repealing national and state deregulation laws, dictating fair and reasonable terms to disarm speculators, and perhaps asserting *eminent domain* to seize generating facilities. No matter what particular actions are required, the bottom line is to reinstitute government oversight to ensure reliable, reasonably priced electricity, and a crash program to build new capacity as quickly as possible.

There are physical constraints in producing and transporting adequate amounts of power in California, thanks to a decade of underinvestment. Periodic shortages of electric generating capacity have existed in the past, in different parts

of the country. But, in the past, the reliability of the system, and service to customers as a whole, was maintained through cooperation on a regional and national basis. This has now disappeared in the dog-eat-dog world of deregulation.

It is the policy of deregulation that has made solving the physical lack of generating capacity in California impossible, as power suppliers see how high they can drive the price of electricity, and their profit. This has led to the financial ruin of the electric utilities. It has created a situation where there is a day-to-day crisis just to provide reliable electric power to 25 million people in California.

Every administration since that of Jimmy Carter in the 1970s, has supported the policy of deregulation, lying to the American public that more "competition" would benefit them through lower rates. In fact, deregulation was promoted by large industrial consumers, looking for a way to reduce their costs. The biggest promotion and sales job was done by oil and gas companies, many of them confederates of, and contributors to, the Bush family in Texas, who stood to make a killing through speculation and manipulation of a market freed from government control.

Now, even in the face of California's clear and worsening public emergency, the outgoing Clinton Administration has not acted, and the incoming President Bush has threatened to undo what action might have been taken. California officials say that Federal Reserve Chairman Alan Greenspan, in meetings in December, told them to "just let the market work."

Policymakers, from the White House to the State House, must sober up, junk the "billionaire every minute" propaganda of the "new economy," and end a deregulation policy which is based on satisfying greed, rather than the public good.

## Reaching the End Game

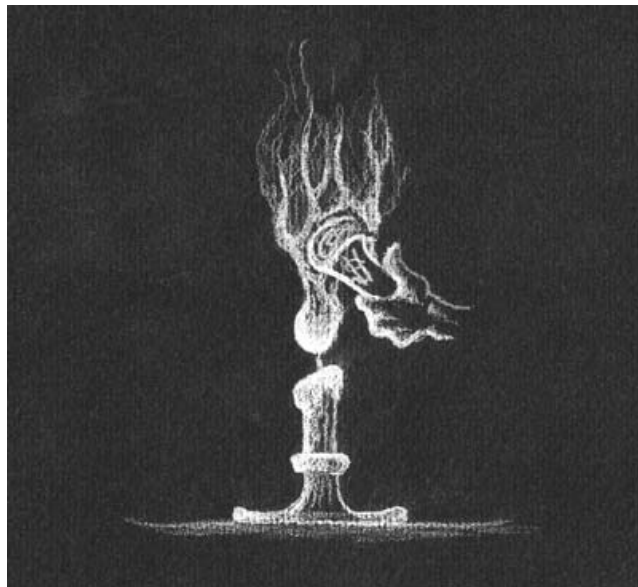
After eight months of borrowing to pay exorbitant prices for electricity supplies, Southern California Edison finally told the Securities and Exchange Commission (SEC) on Jan. 16 that it was “temporarily suspending” payments of nearly \$600 million. Edison and Pacific Gas & Electric (PG&E) together have amassed more than \$11 billion in new debt since last June. Southern California Edison missed payments that included \$230 million of principal and interest on its notes. A payment of \$215 million due to the state Power Exchange was not made. The Exchange stated the next day, that because it depends upon fees paid by the utilities for arranging the sale of electricity, there could be a “domino effect,” and it could “go into default,” along with the utility. Similarly, the Independent System Operator, which manages the state grid system, stated that since it depends upon fees from utilities for use of the transmission system, it, too, could face financial ruin. And, \$151 million owed to “qualifying facilities” in the state—small generators that produce expensive power using “renewable” energy, such as windmills—was not paid. This led Moody’s Investors Service to downgrade the credit rating of five operators of such facilities.

Immediately, rating agencies Moody’s and Standard & Poor’s downgraded Southern California Edison’s credit rating to “junk,” eliminating the possibility that it could continue to borrow to keep its operations running. Despite pleas from the utilities, the Governor, and Federal regulators that the suppliers delay scheduled payments, a Houston-based Dynegy, Inc. spokesman coolly declared, “We just aren’t going to do that,” and began action instead to push the utilities into involuntary bankruptcy.

One day later, PG&E informed the SEC that it would default on \$33 million in commercial paper, and that its parent company would default on \$43 million in payments. A spokesman for the utility stated that this first default may not be the last, because the utility has a \$583 million power bill due on Feb. 1, and \$431 million in other payments due on Feb. 15. In response to the default, the state Power Exchange said that it would suspend the utility’s trading rights at the end of the week, leaving it without the ability to buy power!

Within 24 hours, the ripples of a possible bankruptcy began to hit new shores. Banks, insurance companies, and mutual funds, in the United States and abroad, began issuing unconvincing press releases, denying that they had any serious exposure, should the utilities go belly up. However, Lynn LoPucki, law professor at the University of California at Los Angeles, stated on Jan. 18, in regard to the two California utilities, that “either of these would be a huge case by itself. Together, they surpass anything we’ve ever seen. This is putting more creditor dollars at risk than any other bankruptcy in history.”

Consumer groups shrieked that the companies should “eat” the losses, rather than have customer rates raised to “bail them out.” But the utility stock- and bondholders, who can be



*“The California Effect.”*

left holding the bag in a bankruptcy, aren’t Silicon Valley Internet billionaires. The day after the PG&E default, Fitch’s rating agency downgraded the Orange County, California’s school investment fund, because it holds about \$40 million of Edison debt securities. This fund supports local school operations. (Readers may recall that this is the same Orange County that went into bankruptcy itself a few years ago, when its “investments” in highly speculative derivatives went sour.) Orange County Treasurer John Moorlach, stunned by what has happened, described utility investments as so secure “you would sell them to widows.” Not anymore.

## Too Little, Too Late

On a Federal level, since December, Energy Secretary Bill Richardson has issued, and reissued, orders to force energy suppliers with generating capacity in the western part of the nation, to sell power to California’s utilities, whether they think they are creditworthy, or not. But Richardson has done nothing to enforce this order, and power suppliers, some with the backing of the Governor of Idaho, have publicly defied it. During a speech in California on Jan. 18, only miles away from neighborhoods being subjected to power blackouts, Richardson, days from leaving office, “warned” power suppliers that he will take them to court, using his “enforcement power.” California and nearby public officials had pleaded for months with Federal authorities to set a cap for wholesale electricity prices throughout the region, so that Houston-based, and other out-of-state bandits, could not charge whatever they felt they could get away with, for power. Washington refused to act.

By the beginning of January, PG&E was warning California Gov. Gray Davis that the utility would soon face a differ-



*Part of the 5,000 megawatts of nuclear power capacity, partly built and then abandoned and never put on line, which could have been providing power to the West Coast states from Bonneville Power Authority and Washington Public Power.*

ent crisis, inability to buy natural gas for its customers; and that some of the companies refusing to sell it gas because of its credit problems, were the same companies that had driven it to the edge of bankruptcy with electricity prices. PG&E also explained that a natural gas shortage would make the electricity crisis worse, since gas, which is used to produce 31% of California’s electricity, would have to be diverted to homes and other priority customers.

On Jan. 10, PG&E warned that if the Governor did not invoke emergency powers, it would run out of gas by Feb. 1. Governor Davis wrote a personal letter to President Clinton, asking him to use his mandate under the Federal Power Act to force companies to sell California natural gas. Richardson was still “considering” this on Jan. 18!

### **State Won’t Say, ‘Re-Regulation’**

Although both the Governor and state legislators have been well aware for months that billions of dollars shelled out to what the Governor has termed “highway robbers,” were putting 25 million Californians at risk, a leisurely pace of entertaining legislative proposals produced nothing by the time of the defaults.

Starting on Jan. 9, high-level meetings began in Washington, involving the Governor, utility executives, state regulators, some of the power suppliers, Energy Secretary Richardson, and Treasury Secretary Larry Summers. The Federal officials said they were just “honest brokers,” who would take no Federal action.

Only after the lights were out did Governor Davis declare a state of emergency on Jan. 17, allowing the state Depart-

ment of Water Resources to use money already in its budget to “enter into contracts and arrangements” with power suppliers to buy electricity to “mitigate the effects of this emergency”—i.e., use the good name and credit of the state to bypass the utilities. To prevent the state from going into the kind of debt plaguing the utilities because of over-charged prices, Governor Davis asked a firm price of 5.5¢ per kilowatt-hour. The electricity barons said no; further blackouts ensued.

Davis also announced that he was asking the legislature to pass a bill appropriating additional funds to the Department of Water Resources, to allow it to continue to buy wholesale power until a longer-term solution, through long-term contracts, could be successfully negotiated. Nothing has yet been passed. State legislators, wary of radically increasing rates to consumers to pay for the wholesale power, are not anxious to jump into the fire.

It is clear that these half-way measures will not reverse the crisis. If the utilities have to swallow the billions of dollars of losses, they will never be creditworthy again. If the state bails out the utilities, it will have a taxpayers’ revolt on its hands, as consumers are asked to subsidize outrageous, triple-digit profit rates for George Bush’s friends. If the utilities are simply left in bankruptcy court, their physical assets could be lost, and billions in new cross-defaults occur.

Whatever specific steps are necessary, and however the debt is cancelled or reorganized, the utilities must be able to continue to perform their vital service. The state must regain its oversight, taking responsibility for the construction of new power plants, transmission lines, and other infrastructure. The Federal government must reassert its role as the protector of the public from profiteers and speculators, and foster the expansion of required infrastructure. Before the “deregulation age,” laws were put on the books to ensure this.

This was the legacy of President Franklin Roosevelt. He used the power of the Federal government, through the Rural Electrification Administration, to bring electric power to isolated areas where utilities said that it was unprofitable to build; used the good credit of the United States to build dams and power plants along the Tennessee and tributary rivers, to create new businesses, scientific agriculture, and industry; formulated laws to prevent Wall Street financiers and speculators from “fleecing” Americans for basic needs, such as electricity; and enabled the largest boom in infrastructure investment since the building of the Transcontinental Railroad.

This is the scope of what is necessary to solve the economic crisis, and California’s energy crisis, today.



# Texas Bandits and Popular Delusions Hold State of California Hostage

by Harley Schlanger

How can it be, people all over the world must be wondering, that the state of California—the richest state in the world’s richest nation, the home of Silicon Valley, Hollywood, and the Golden Gate Bridge, where fortunes are made and dreams come true—is now unable to keep the lights on in its citizens’ homes and businesses?

And, once it was clear that an energy crisis of mammoth proportions has resulted from the schemes imposed by corrupt and greedy officials of power companies working with gullible bureaucrats, why is it that no elected official in the state has yet stepped forward to fight for the obvious solution? That was offered on Jan. 3 by Lyndon LaRouche: re-regulation, and the issuance of an emergency fund of credit for construction of new power-generating plants, with an emphasis on nuclear power?

As the U.S. Western states spokesman for LaRouche’s just-announced 2004 Presidential campaign, I toured California in mid-January, to awaken its residents to the depth of the crisis—which, surprisingly, they do not yet admit—and to move them to act to save their state’s, and the nation’s, economy, before they are swept away in the biggest economic/financial crash in 500 years. Accompanying me was Joe Neal, a senior Democratic State Senator from Nevada, who is emerging as a national leader in the battle against the corporate pirates and thieves deregulating energy throughout the nation. We spoke at town meetings, and met with officials involved in energy policy in the state capital of Sacramento, Oakland, and Los Angeles.

As we travelled, the state ran out of luck, and a Stage 3 level of crisis was reached, leading to rolling blackouts. That night, Jan. 17, Gov. Gray Davis declared a state of emergency. But the blackouts returned next day. Factories were closed, schoolchildren were dismissed, businesses tried to ride it out. Even the building which houses the State Supreme Court in San Francisco experienced a two-hour power outage.

What we discovered is quite instructive: From the street corner to the Statehouse, citizens of the “Golden State” are trapped in their illusions, fearful of challenging the generally accepted view that deregulation is the only option for the

state, and that it is necessary to “stay the course,” even if things “seem tough” today. That these false axioms can be confronted by real leadership, was clear from the enthusiastic response to Senator Neal’s briefings at town meetings held in San Francisco and Los Angeles, and the respect he received from officials as the only Western state legislator to stop deregulation in his state.

## Tough Talk From Governor Davis

The way in which Democratic Governor Davis has reacted exemplifies the real problem which underlies the crisis, which is the failure to confront the faulty axioms of globalization, free trade, and deregulation—axioms which have brought the world to the brink of a global depression. A “Third Way” Democrat with a reputation for fiscal conservatism, Davis, like most California Democrats, was a supporter of deregulation. As the present crisis has deepened, however, he has become an increasingly vocal opponent.

In his State of the State speech on Jan. 8, Davis minced no words. “California’s deregulation scheme,” he said, “is a colossal and dangerous failure. It has not lowered consumer prices. And it has not increased supply. In fact, it has resulted in skyrocketing prices, price gouging, and an unreliable supply of electricity—in short, an energy nightmare.”

He continued blasting deregulation, especially the way in which it rewards speculators, while penalizing producers. “Electricity is not an exotic commodity like pork bellies, to be traded in the chaotic equivalent of a futures market.” As a result of this nightmare, he said, Californians “have literally lost control over our own power. We have surrendered the decisions about where electricity is sold—and for what price—to private companies with only one objective: maximizing unheard-of profits.”

Asserting that the state will move to take control over its electrical power system, Davis said, “Never again can we allow out-of-state profiteers to hold Californians hostage. Never again will we allow out-of-state generators to threaten to turn off our lights with the flip of their switch.” He did not, however, *name* the electricity robber barons who have destroyed California’s power utilities in four short years.

They are Houston-based Reliant Corp., Dynegy, and Enron Corp.; Charlotte-based Duke Energy; Virginia-based AES, the biggest global buyer and seller of power plants; and San Jose-based Calpine.

Just over one week after the Governor's speech, those power conglomerates did, in fact, switch off California's lights, with cool arrogance. A Dynegy spokesman, after the company was asked by both Davis and President Clinton to stretch out the utilities' payments to keep them from bankruptcy, replied to the press Jan. 16, "We just aren't going to do that. There's too much at stake."

And now they are moving in to liquidate the utility companies, by going into bankruptcy court, to collect the unpaid jacked-up fees they are charging them to supply energy. The utilities have defaulted on hundreds of millions to the robber barons; but, they are likely now to set off defaults on *tens of billions* borrowed from banks. Governor Davis was not helped by his emergency meetings in late December with Federal Reserve Chairman Alan Greenspan, because Greenspan was in a panic at the time, lowering rates and pumping money to save the U.S. debt bubble. Davis's plan itself, is skewed by its attempts to bail out the bank creditors of the California utilities.

## Fears and Illusions

In our meetings with state officials, we were assured, repeatedly, that they are fully aware of what they are up against. Yet, not once did these officials propose re-regulation. Instead, they offered the same *mélange* as that of the Governor: a little bit of financial management, some serious conservation, and a dash of hope that the Enrons and Duke Powers of this world will recognize their plight, and be more reasonable.

As a last resort, in case expecting reason from the privateers was asking too much, they spoke vaguely of invoking emergency powers, to ensure that electricity was delivered to the bankrupt utility companies.

Senator Neal, drawing upon his experience in Nevada, emphasized the need for Governor Davis to assert his authority under the General Welfare clause of the U.S. Constitution. No California legislator has yet put forward a plan for reregulation, amazingly. Neal told the legislators to give the Governor a finding that low-cost electricity is a necessity of the welfare of the state, so that Davis can use emergency powers, such as use of *eminent domain*, to ensure the delivery of electricity *and the rapid construction of new power facilities*, of which the state has added none in a decade. In both public and private meetings, he stressed that the primary role of elected officials is to act for the General Welfare, which takes precedence over shareholder values.

Ultimately, it is the illusion that Greenspan's bubble is prosperity, which has caused the people of California to tolerate an unreliable power system of the sort one would expect to find in a poor, Third World country.

# Saudi Minister Yamani: 'Kissinger Was Behind 1974 Oil Shock'

by Our Special Correspondent

The British Sunday paper, the *Observer*, on Jan. 14, accused then-U.S. Secretary of State Henry Kissinger, of being a key player in orchestrating what was then a 400% rise in the price of crude oil following the October 1973 Arab-Israeli War.

The *Observer* interviewed former Saudi Arabian Oil Minister Sheikh Yaki Yamani, on the eve of the Organization of Petroleum Exporting Countries' January meeting in Vienna, where OPEC oil ministers decided to try to keep oil prices high by cutting output by 1.5 million barrels per day. That decision was widely opposed by the Organization for Economic Cooperation and Development member governments, as risking a deep economic recession.

Commenting on the Sheikh's warnings against the Organization of Petroleum Exporting Countries (OPEC) oil cuts at this time, the London paper noted, "He believes increasing the price could worsen the economic situation in the U.S.—with knock-on effects in the Far East and Europe—to the long-term detriment of producers, as industrialized nations seek other sources of oil, and of power. In this, he has remained consistent for 30 years: In the 1970s he was not persuaded of the benefits to OPEC of hiking crude prices by the 400% that came about in 1973."

The *Observer* added, "The Sheikh says he does not miss the day-to-day cut and thrust that characterized the 1970s oil crisis. However, it is with a smile that he adds: 'When you deal with oil you have to take so many other things into consideration.' The suggestion is that politics, rather than economics, is the key. . . . The key political question in his mind now is the same as it was in 1973—relations between Israel and its Arab neighbors."

Then, a bombshell: "He reminisces about the era of great oil diplomacy in the 1970s and his contemporary, former U.S. Secretary of State Henry Kissinger. . . . At this point he makes an extraordinary claim: 'I am 100% sure that the Americans were behind the increase in the price of oil. The oil companies were in real trouble at that time, they had borrowed a lot of money and they needed a high oil price to save them.' He says he was convinced of this by the

attitude of the Shah of Iran, who in one crucial day in 1974 moved from the Saudi view, that a hike would be dangerous to OPEC because it would alienate the U.S., to advocating higher prices. ‘King Faisal sent me to the Shah of Iran, who said: “Why are you against the increase in the price of oil? That is what they want. Ask Henry Kissinger—he is the one who wants a higher price.” ’ ”

The interviewers then comment, “Yamani contends that proof of his long-held belief has recently emerged in the minutes of a secret meeting on a Swedish island, where U.K. and U.S. officials determined to orchestrate a 400% increase in the oil price. Yamani was Saudi Oil Minister from 1962 to 1986. During that time, he escaped the assassin who killed King Faisal, and survived kidnapping by Carlos ‘The Jackal.’ ”

### 1973: The Real Story

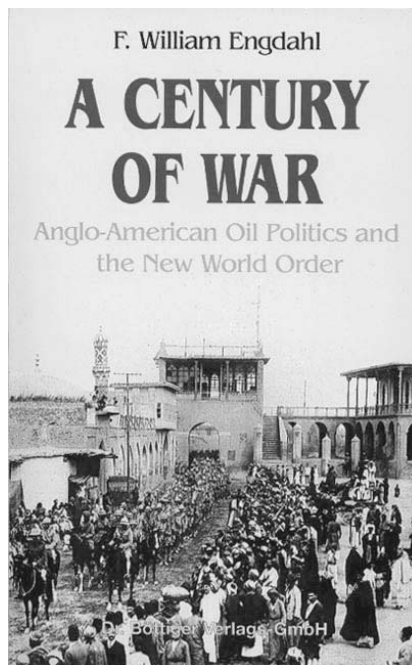
What perhaps the Sheikh was unaware of, is the fact that it was not “the Americans” working with Kissinger to drive up the oil price, but rather, an Anglophile faction of the U.S. establishment working with London oil and banking interests in and around the Royal Institute for International Affairs. Kissinger once boasted in a speech to that institute that, as U.S. Secretary of State, he had more regularly consulted the British Foreign Office on key decisions than he did his own State Department.

The allegations of Kissinger’s role, and of a meeting at a secret Swedish island to plan the 400% rise in oil prices in 1974, a move which put the economic growth of the world into a devastating reverse, were published in the June 9, 2000 *EIR*, in an article titled, “Oil and the Coming Financial Armageddon.” *EIR* wrote at that time, “Beginning October 1973, when world oil prices soared by 400% over several weeks in the wake of the manipulated Henry Kissinger ‘Middle East Shuttle Diplomacy,’ a concerted world media campaign pointed the finger of blame for the devastating oil shock at the OPEC oil-producing countries.”

The *EIR* account continued, “Sheikh Zaki Yamani, then Saudi Oil Minister, became the target of Western media attention. He was portrayed as the most powerful man in the world for his alleged ability to decide world oil prices, accused of responsibility for the ensuing economic recession worldwide.

“Subsequent investigation revealed a quite different background to the devastating ‘Oil Shock’ of 1973-74. Far from being a conspiracy of greedy Arab oil sheikhs, the 400% rise in prices for the world’s most important energy source, petroleum, was planned well in advance of the October 1973 ‘Yom Kippur’ War, the ostensible trigger for the oil shock.

“The price shock was laid out in detail during a secret meeting of the Bilderberg Group in May 1973 at Saltsjöbaden, Sweden. That meeting included the heads of the major



*EIR economics editor William Engdahl told the full story of Kissinger’s role, in his 1993 book.*

British, U.S., and French oil multinationals, then dubbed the Seven Sisters. It included the leading banking voices of the City of London, and key NATO country politicians. Henry Kissinger was among the select invited guests. That meeting planned, down to the exact amount, the 400% oil shock of six months later, and discussed how the oil multinationals’ allied bankers would use it for what Henry Kissinger liked to call ‘recycling petrodollars.’

“That recycling of the sudden embarrassment of riches in OPEC went in the form of City of London Eurodollar loans to Third World debtor nations forced to borrow to finance their huge new oil import costs. It was the origin of what in the 1980s became the ‘Third World debt crisis.’

“For the Seven Sister oil multinationals, the 1973-74 oil shock was a conveniently timed godsend. Consortia of all the Sisters had invested billions of dollars—amounts never before seen in the history of oil exploration—in the construction of large offshore oil platforms and of oil infrastructure in the then new oil fields of the North Sea and Prudhoe Bay, Alaska. The extreme physical difficulties of both areas meant companies had to invest sums never before dreamed of. Before the 1973 price increase, the Seven Sisters faced financial disaster and unpayable debts to their bankers. Their bankers, in turn, were the same bankers who recycled the OPEC petrodollars after 1973.”

That *EIR* account was reprinted and circulated widely in Arab media. The account is taken from the 1993 book by William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order* (Wiesbaden: Böttiger Verlag, 1993).

# U.S. 'Energy Crisis' Slams Manufacturers

by Marcia Merry Baker

The National Association of Manufacturers (NAM) held a press conference on Jan. 17 in Washington, D.C., to release a survey showing that U.S. manufacturing has been "severely hit" by rising costs of natural gas and other energy sources. The survey was taken Jan. 8-12, of 5,500 firms of all sizes, with 737 responding.

NAM President Jerry Jasinowski reported on the significance. "Manufacturers consume more than a quarter of the energy used in our economy, which means they're being hard-hit by escalating natural gas prices. Two-thirds of the survey respondents say they rely on natural gas as a significant source of energy. According to the Department of Energy, the price of natural gas in the first quarter of 2001 will be 130% higher than during the same period one year ago. Manufacturers consume 26% of the natural gas used in the U.S., so they face serious economic consequences from the extraordinary rise in prices."

Jasinowski elaborated on the broader economic effect. "There's no question but that energy and energy price increases for oil and gas have had a devastating impact on the American economy and the manufacturing sector," he said. "Our calculations indicate that between 1999 and 2000, the rising price of oil and gas cost our economy more than \$115 billion, a full percentage point of GDP. Simply put, over the past year, manufacturers that use natural gas have been hit by a whopping increase in energy costs that have reduced their profits by roughly 14%."

Layoffs and work stoppages are mounting. Over 43% of the 737 companies responding on the employment question, said they have had to lay off workers because of the increased energy costs, and one-third to two-thirds have had to reduce benefits, hours worked, or profit sharing to employees. "Let no one be mistaken," Jasinowski said, "but that we are, in the American economy, in treacherous waters, because of the combination of high interest rates, extraordinarily high oil, electricity, and, most importantly, natural gas prices, as well as an inventory cycle and some other factors that are slowing the growth and threatening the health of the American economy."

The pass-it-on effect to end-users, of high energy prices for manufacturing? Jasinowski reported: "The survey shows that nine out of ten companies dependent on natural gas are passing no more than a quarter of their increased energy expenses through to those who buy their goods. Additionally,

more than a quarter of large companies report that they have curtailed operations in response to natural gas price increase or unavailability, and 12% of all natural gas-using firms have had their production processes interrupted due to the inability to obtain natural gas."

## All Sectors and Regions

The industrial dislocation is widespread, with obvious hyperinflationary potential. California and the Northwestern states lead the nation, but the process is under way throughout the country, from metals, to pulp and paper, to machinery, to food.

Kaiser Aluminum and Chemical Corp., whose operations are concentrated in the West, announced in early January that it has imposed a \$0.019 per pound surcharge, on all orders shipped on or after January 2001, regardless of entry-date, and until further notice. This applies to all its flat-rolled goods, and to engineered products of other kinds. In several locations, Kaiser has closed aluminum plants, instead selling the power it would have used for its own production.

Shasta Paper, whose products are shipped nationally, shut its plant in Redding, California in December, laying off 460 workers because of high gas prices. In January, it re-opened, with 68 fewer workers, then was hit with the new 10% electricity surcharge in the state. The Redding plant manager now says the facility may close permanently.

## Food Processing

Light industry and food processing are as hard-hit as heavy industry. California is the foremost state in value of agriculture output, accounting for some \$25 billion, out of the nation's \$189 billion in agricultural production in 1999. The state has a gigantic food-processing sector—ranging from dehydration plants, to canneries and yogurt factories. Most of these use natural gas, and many are simply shutting down. The national impact on the food chain, as well as on communities in the state, will be disastrous.

In Tulalake, California, for example, the potato-flake plant was closed on Jan. 20, for the second time in a month, because of the 16-fold increase in monthly natural gas bills, and then on top of that, the January 10% electricity rate hike. These dried potatoes go out of state to users such as Cincinnati-based Procter & Gamble, for processing into mashed potatoes, chips, and other products.

California is the biggest milk-producing state, accounting for 20% of all U.S. dairy products. Besides electricity for milking machinery, milk processors rely on natural gas power to produce cheese, butter, dried milk powder, evaporated milk, and other products. California Dairies, Inc., the nation's second-largest farmer-owned cooperative, expects farmers' power costs to rise at least tenfold this Winter. Michael Marsh, chief executive of Western United Dairymen, said that consumer prices for dairy products will go up nationwide because of California, unless "cows fall from the skies in Wisconsin."

# Reregulate Energy, and Keep Privateers Out of the Cabinet

by Marcia Baker and John Hoefle

*This “Testimony to the Energy and Natural Resources Committee, U.S. Senate, in Opposition to the Confirmation of Senator Spencer Abraham as Secretary of Energy,” was submitted by EIR economics experts on Jan. 17, 2001.*

Chairman Bingaman, and Members of the Committee:

Our publication, *Executive Intelligence Review*, has forewarned for over two decades, against the kinds of policies that led to today’s acute energy crisis: namely, the policies of dumping nuclear power, of deregulation, of speculation, and all the consequences of “casino economics.” In recent weeks, emergency energy proposals based on guidelines by Lyndon LaRouche, *EIR* Founding Editor, and now newly announced Presidential candidate, have been introduced before the Boston City Council, passed in California Democratic Party County meetings, and are being debated in state capitals throughout the country.

Millions of Americans are hit directly by the energy crisis, and chain-reactions of shutdown are spreading throughout the economy. As of January 2001, electricity rate hikes in the range of 10-40% have been imposed in California, Massachusetts, Washington, and many other states; these come on top of natural gas, heating oil, and propane prices skyrocketing. Factory shutdowns, agriculture dislocation, and threats to vital services (schools, hospitals, water, and sanitation) are now the order of the day.

It is from this crisis perspective—and also based on the larger context of the unprecedented global financial and economic-breakdown crises now breaking, that we urge you to reject the nomination of Spencer Abraham for the position of Energy Secretary. Our testimony opposing the Abraham nomination, has been prepared to provide the Senate with summary documentation of the nature of the energy emergency, and the urgency of facing the larger crisis.

We conclude our testimony with excerpts from Lyndon LaRouche’s statements on energy policy, made on a live international webcast Jan. 3, in specific response to a question from *Detroit News* reporter George Weeks, about former Michigan Senator Abraham’s and Bush’s energy policy. On that same webcast, at the time the news broke of Federal Reserve Chair-

man Alan Greenspan’s Jan. 3 interest rate cut, LaRouche stated, that President Clinton should immediately take two measures:

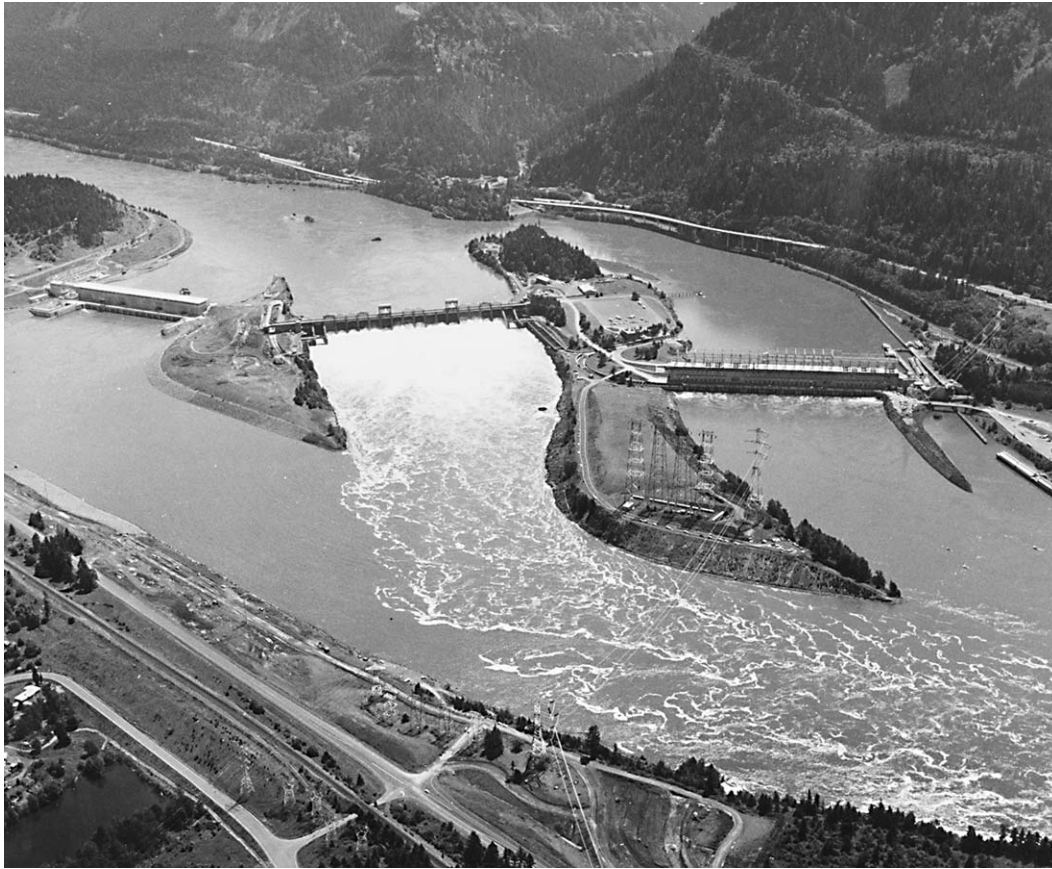
- First, he should use Presidential powers to create an emergency fund of credit which would be directed into urgently needed, major employment projects, like construction of power plants in California.
- Second, he should immediately *reregulate* those sections of the economy, particularly the energy utilities, in order to prevent a power emergency.

LaRouche put it this way:

“There’s only one thing you can do. The system is going to blow. What do you do? You *don’t use monetarist methods*. Monetarist methods caused the problem. Yes, you may use credit. You do what Roosevelt did with Jesse Jones and the Reconstruction Finance Corporation; that’s what you do. You take and earmark—don’t lower the interest rates. Create a special vehicle. Go to the Congress. Get a special fund authorized by the Presidential powers under the Constitution. Get some money allocated, real fast, an emergency fund, to get going, as seed money, to get some major employment projects in construction. . . .

“For example, let’s take the case of California. We’ve got, right now, one of the major crises of the nation is the situation with the Edison of Southern California, and the PG&E. Now, there’s a shortage of energy. Well, why not, immediately, through the Federal government, create, first of all, two steps: Establish reregulation, emergency reregulation. Do it under Clinton. Don’t wait for Bush. Do it now! I’d have Clinton do it right now, while he’s still President. Reregulate! On an emergency basis, under emergency powers of the President. You’ve got an emergency, California! A hell of an emergency. Reregulate—it’s a national emergency. And then get some money in there, we’re going to fix this problem. We’re going to get some power generation going in that area. We’re going to ensure a safe and adequate supply of energy, to industry and to populations throughout the area. That’s our mission.”

In this testimony, we will not take up particulars of Senator Abraham’s personal record to call for his disqualifi-



*Bonneville Lock and Dam, which has helped provide a reliable source of power to the United States for years, is targeted for privatization by Secretary of Energy-designee Spencer Abraham. The free-trade policies of the Bush team will make an already disastrous energy crisis, worse.*

cation, even though he has several times called for the abolition of the very Department he has now been nominated to head. The relevant point about the man and his philosophy, in the case at hand, is that the energy and economic policies associated with George W. Bush, with which Senator Abraham is aligned, are demonstrably at odds with the interests of the nation, even to the point of providing piracy-rate profits to Bush campaign-associated Texas energy companies, at the expense of keeping the lights on. We document this below, in the case of California's electricity and gas crisis.

Moreover, the Bush "team" profiteering goes beyond a conflict-of-interest scandal—which is historically unprecedented. The danger presented is that, with the unfolding energy and economic crisis, and the financial blowout, if a Cabinet is allowed to be formed of the disposition represented by Abraham, along with others proposed, especially John Ashcroft, then conditions are created for the Federal government to be used to impose rule *by force* under circumstances of social upheaval. The analogy here is to 1933 "emergency decree" policies asserted by Hitler. That is the degree of crisis, and danger represented by the persons and policies nominated.

The California and nationwide energy crisis, and the

global financial and economic emergency, confront lawmakers with the task of reasserting traditional U.S. general welfare policies. In the case of energy, there must be reregulation, and infrastructure building. Spencer Abraham is not the man for that job.

We here provide the essentials for evaluating the immediate tasks for the head of national energy policy at time of crisis. In order, below:

1. The California and nationwide energy crisis.
2. The scandal of the Bush associates' energy cartel.
3. The national and international financial and economic breakdown process.
4. LaRouche proposals: Reregulate, issue emergency credits to rebuild.

### **1. California, Nationwide Energy Crises**

California and the Northwestern states are now experiencing an extreme energy supply and price crisis. On Jan. 11, a Stage Three statewide electricity shortage emergency was put into effect in California, the second such extremity in six months. Washington and Oregon are similarly hit. Electricity prices (on the new, deregulated "wholesale" market) have hyperinflated from, in the range of \$30 per megawatt hour in 1999, to \$1,200—even \$3,000 per megawatt

hour—as of December 2000. Two of the three major distribution utilities in California, Southern Edison and Pacific Gas & Electric, have racked up \$12 billions in debt only from June to December 2000, because of the Weimar-style hyperinflation. They can neither buy electricity nor natural gas—whose price likewise has hyperinflated, especially in the Western states. The total debt of these companies is in the range of \$20 billions.

As of Jan. 16—the time of preparation of this testimony—Southern Edison’s parent company stood in default for a \$100 millions payment to a creditor; in upcoming days, both utilities face more due dates of unpayable obligations. In Sacramento, the state legislature was in emergency session to consider Gov. Gray Davis’s proposal for the state to interpose in the markets in an attempt to continue electricity supplies.

In financial terms, the California and other U.S. utility debt default is enough to blow up the U.S. and international financial system. Under certain “cross-default” clauses, the California utilities debt places up to \$20 billions in default. Thus, technically, California is not at all a “mere” state energy crisis, but the manifestation, in energy, of the general economic breakdown process, and financial disintegration under way.

Nationwide, variations of the so-called “California crisis” are worsening in all regions, and for all modes of energy—electricity, natural gas, oil, gasoline, propane, fuel oil. National U.S. utilities debt is in the range of \$400 billions and growing, with other companies—outside California, and in natural gas as well as electricity—in various stages of arrears.

How did this come about? In brief, the immediate causes were the lack of expanding energy generation facilities, and deregulation policies that resulted in marginalized supplies, and allowed speculation and hyper-profits. Beginning in the 1970s, generating capacity per household in the U.S. began to fall year by year. At the same time, there began changes particular to each mode of energy (fossil fuels, oil and gas, electricity, etc.) made in the name of increasing “markets” and competition. This was a ruse from the start, as is now evident. In reality, mergers and acquisitions, along with the deregulation of various kinds now under way in about 26 states, have led to increased, centralized private control, shortages, and soaring prices.

- The average price of natural gas has soared from under \$2.75 per 1,000 cubic feet in 1999, to over \$10 in December 2000. A small group of newly merged transmission and gas companies—directly interconnected with the Bush campaign and proposed Administration—are raking in huge profits (detailed below).

- The rise in the per-barrel price of oil over Y2000—fueled by speculation in “paper oil” in London and on the New York Mercantile Exchange—has resulted in severe

hardship for citizens and economic activity, and huge profits for the cartelized oil companies. E.g., BP-Amoco made 94% increase in profit for third quarter 2000 over 1999.

We are now seeing the chain-reaction effects throughout all sectors of the economy. Kaiser has placed a surcharge on fabricated metal products. The electricity hyperinflation in California, origin of 20% of all U.S.-produced dairy products, will create severe *national* shortages in supply, and whopping high prices for milk goods. Nitrogen fertilizer production—dependent on natural gas—is so cut back and high-priced, that corn planting will be far reduced in acreage this Spring (on top of very low Winter wheat acreage last Fall). Vital services, such as sewage treatment, hospital operations, and so on, are threatened in many states.

## 2. The Bush League and the Energy Cartel

The incoming Administration’s stated policy is to continue the deregulation of energy, a policy of economic destruction of which the chaos in California is just the leading edge. Deregulation is a scam designed to let financial middlemen—the Enrons, Reliants, Dynegys, and AESs of the world—skim off a large chunk of the billions of dollars Americans pay for energy every year, and Senator Abraham has been given the assignment of protecting this scam. Anyone who would carry out such an assignment, is morally unfit for public office.

Not only is Texas the center of those energy speculators which California Gov. Gray Davis has accurately characterized as “pirates,” but the circles around the coming—and the former—Bush Administration are in many ways indistinguishable from these energy privateers. California was the lead state to deregulate in 1996, and by 1998 began the process of forced sell-off of generating capacity to the new echelon of private “merchant generators.” Some 40% of the state’s generating capacity is now in the hands of these firms, posting fabulous profits. The following are prominent among the nation’s energy profiteers:

- Enron, based in Houston, is the leading historical contributor to the political campaigns of President-elect George W. Bush. Enron Chairman Kenneth Lay is one of the chief advisers of Secretary-nominee Abraham. Enron is also one of the leading forces in “energy futures”—namely, in transforming the pricing of electricity from a “cost of production plus reasonable profit” model, to a “whatever the market will bear” speculators’ dream.

- Reliant Energy, based in Houston, reported that its income rose 37% in December 2000. Reliant bought five power plants from Southern California Edison in 1998, and owns 17% of the 40% forced sell-off. One of its directors, James A. Baker, III, was chief of staff and Secretary of State in the Administration of former President George H.W. Bush. Baker has also been a consultant to Enron, as have a number of officials of the former Bush Administration and even former

President Bush himself.

- Dynegy, based in Houston, owns California power-generation capacity in partnership with several others, including NRG Energy, which posted a 221% third-quarter income increase compared to the previous quarter.

Others that acquired generating capacity, and are now making killer profits are: 1) Charlotte-based Duke Energy, whose income rose 74%; and 2) Arlington, Virginia-based AES, the global energy mega-company whose third-quarter earnings were 131% higher than the previous quarter.

### 3. International Economic and Financial System Breakdown

This looting of energy payments occurs at a point in which the international economic and financial system is breaking apart, and the U.S. stands at ground zero of that collapse. The widely touted growth of the U.S. economy during the Reagan/Bush, Bush, and Clinton years has been a growth in debt, financial claims, and casino-like derivatives bets globally, but centered mainly in U.S. institutions.

Globally, we estimate there are some \$400 trillions of financial claims outstanding, ten times the size of the gross world product, which itself is a figure bloated by the effects of the financial bubble. The institution with the highest exposure to this bubble is the recently merged J.P. Morgan Chase & Co., which by itself has some \$23 trillions in derivatives bets, more than twice the U.S. GDP! The Federal Reserve's recent lowering of interest rates to protect the troubled Bank of America and its \$7 trillions derivatives portfolio is indicative of the instability such uncontrolled betting creates.

The fate of the U.S. banking system and financial markets is inextricably intertwined with this bubble; if the bubble pops, the banks, the markets, and Wall Street go with it. The Senate knows it, the House knows it, the Executive Branch knows it, and the media knows it. But rather than take the steps repeatedly outlined by Lyndon LaRouche to put this system through bankruptcy and begin to rebuild the productive sector of the economy, the policy has been to pump up the bubble by escalating the looting of the population and the productive base. The energy deregulation scam is but one aspect of this looting scheme.

Cannibalization of the population and the productive sector only works in the short term, however. The more you steal from the population, and the more you disinvest in infrastructure, manufacturing, health care, and education, the less able is the economy to service the enormous debt overhang of the bubble—day by day, the economy becomes more bankrupt. Eliminating “useless eaters” creates more “useless eaters,” and the process feeds upon itself. Eventually the point is reached—as it has now—where the physical economy itself begins to break apart.

The California crisis, in which a physical-economic electricity crisis—combined with savage looting—has created a

financial crisis, represents just such an event, and serves as a warning to all that the piper is demanding payment for decades of foolish policies and ideas.

The Establishment knows that its mountain of financial claims can never be paid, and that a serious crash is coming in one form or another, and that leads us to an even darker side of deregulation. With the rampant mergers among energy companies, and the shifting into a “whatever the market will bear” pricing scheme, the Establishment is positioning itself to grab the income streams which remain after the crash. The rapid consolidation of control in energy, food production and distribution, telecommunications, strategic minerals, precious metals, raw materials, and other essentials of life, represent preparations for exerting power after a crash. As the empires have known for ages, he who controls the necessities of life, controls the people. This is the policy to which the Bush Administration and its Energy Department are committed, and this is how civilizations end. This policy should be stopped now, by the Senate.

### 4. LaRouche: California Is a Test for Energy Policy

Only the traditional, “general welfare” approach to dealing with the energy crisis will work. The principles are in U.S. standing law, including the Federal Power Act of 1935, the Public Utility Holding Company Act of 1935, the Atomic Energy Act of 1946, and other precedents. What is immediately required is to deal with the two causes of the worsening crisis: first, to remedy the lack of supplies of electricity and fuels (including transmission, refining, and all such essential logistics); and second, to roll back the deregulation. Even well-meaning stop-gap attempts to keep the lights on through taxpayer subsidies, or rate hikes, only line the pockets of Bush-team speculators, and hurry the nation down the road to destruction. Workable proposals must proceed from the economic national interest overall.

On Jan. 3, during a live webcast, newly announced 2004 Democratic Presidential candidate Lyndon LaRouche gave his evaluation of Spencer Abraham and the Bush energy policy in response to a question from *Detroit News* reporter George Weeks.

“Look, talk about energy policy. Two major things are involved here, first of all. First of all, how many kilowatts are we generating? What does it take to support a community? What does it take to support an industry? What about the energy-flux density of our energy sources? What about reliability, in terms of supply and price? You know, these kinds of questions have to be faced first. And this is *exactly* the kind of thing you're not likely to get from Bush.

“Look, for example, one very—thing that sticks in your craw, when you look at Bush: *What about Rainwater?* What about the involvement of Enron? What about *these* things which are tied closely to Bush, which are the *cancer* destroying the energy system of the United States? I don't think that



a Secretary of Energy under George Bush, be he good or bad, has any chance of doing a good job at this time.

“My view on the entire Bush Administration, is that members of the Congress—chiefly Democrats, but also honest Republicans—have to get together and *put a leash on this Bush Administration*, to make sure it knows where to do what on the lawn, and where not to do it. You have to create a condition under which Bush says, ‘Okay, I’m the President, but I have to heed what this angry bunch of constituents is telling me I better do, or else.’ Under those conditions, you might be able to find a Cabinet appointment in the Bush Administration, which has enough independence of the Rainwater phenomenon and other things in the Bush background, to be able to make an honest decision on things like energy.

“But at present, the way the Administration is now constituted, the way it’s framed up to be, given the situation in the Congress *at this moment*—it may improve later, but at this moment—I don’t think the United States *has a chance* under a Bush Administration. I think we’re looking at a short road to Hell, under George Bush—*unless* we can create the condition in the country, where the fact that a weakly elected, or quasi-elected President has to recognize that he doesn’t carry much weight with the country as a whole, and the best thing he can do, is sit back in that office, and pay attention to some orders and pressures from his constituents—and the orders and pressures coming from his best advisers, who tell him, ‘Mr. President, you better do *this*.’ And he says, ‘Why? I’m the President.’ ‘Well, we *call* you President, but you really *aren’t*. You’re just the man that signs the checks, and signs the bills.’”

Reporter Weeks further asked, “Sir, when you say that we’re on the short road to Hell under George Bush, are you talking energy, or overall?”

LaRouche replied: “Overall, everything. Energy’s just—Look at the California situation: What is the Bush policy on what are you going to do about PG&E and Southern Edison? What’s he going to do about it? That’s a test, that’s a test on energy policy—right now. We’ve got a situation in New England, that’s going to be developing on the heating oil question, that’s going to rise up again. We’ve got all over the country an energy crisis.

“Well, let’s take California. Let’s take PG&E and Edison. That is the marker which tells you exactly what the entire Bush Administration policy is going to be on energy—right then and there. You don’t have to find out in Michigan, you can find out right there.”

As you undoubtedly know, just today PG&E defaulted on \$600 millions in debt—and there is no clear policy coming from anywhere to guarantee the power-generating capacity in this region, which serves over 20 million people. So the question is before you now: Will you select an Energy Secretary who will reregulate and provide the energy we need, or will you hand the system over to the energy pirates wholesale?

## Energy Crisis Hits America’s Poor Hardest

by Mary Jane Freeman

All across America, households must spend 10-50% more for their energy needs than they did last year. The primary causes of this drastic increase in prices are speculation and deregulation, as *EIR* has documented over the last six months. While this increase has already caused plant shutdowns and major disruption of power to California, it is life-threatening to America’s poor and low-income families. Unless the incoming Congress and Administration substantially increase funding for the Federal Low-Income Home Energy Assistance Payments (LIHEAP), millions of low-income households will face freezing before the Winter is out.

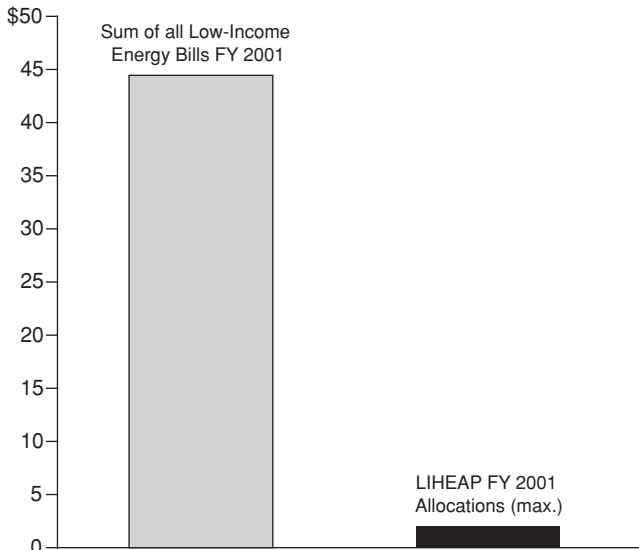
A report, “The Winter Energy Outlook for the Poor,” issued by the non-profit research corporation Economic Opportunity Studies (EOS), and partly funded by the U.S. Department of Energy, reveals a dire picture for 27 million low- and moderate-income households. As of Dec. 20, 2000 when the report was issued, these households—because of energy price increases—would receive energy bills estimated at \$45 billion for FY 2001 (October 2000 to September 2001). Yet, the amount of LIHEAP funds available to assist these consumers is \$1.85 billion, i.e., a mere 4% of their costs (see **Figure 1**). “Many poor families in cold climes will not be able to heat, eat, and pay the rent,” Consumer Federation of America executive director Stephen Brobeck said at a press conference releasing the report. “They will certainly suffer discomfort and possibly great health risks, including death.”

This means that one-quarter of America’s households do not have the means to keep warm this Winter—already the coldest November and December on record, nationally, since 1898, according to the National Weather Service. Who are these Americans? They are the 27 million households of low- and moderate-income families who, on average, now must pay 19% of their *total annual income* for their energy needs, as shown in the report. For America’s very poor, those at or below the Federal poverty guideline which itself is inadequate, the average percentage is even higher, at 22%, and of these, using fuel oil, it can be as high as 37%—that is, about one-third of their annual income! These figures were based on Department of Energy (DOE) data as of December 2000. But as of early January 2001, the new numbers are much worse. The highly inflated speculative prices of fuel sources, means that these Americans have to choose between paying either their heat, rent, food, or medical bills. This is not a choice, but a death warrant, in many cases.

FIGURE 1

### LIHEAP Resources FY 2001 and All 2000-01 Residential Energy Bills of All Low- and Moderate-Income Households

(Billions \$)

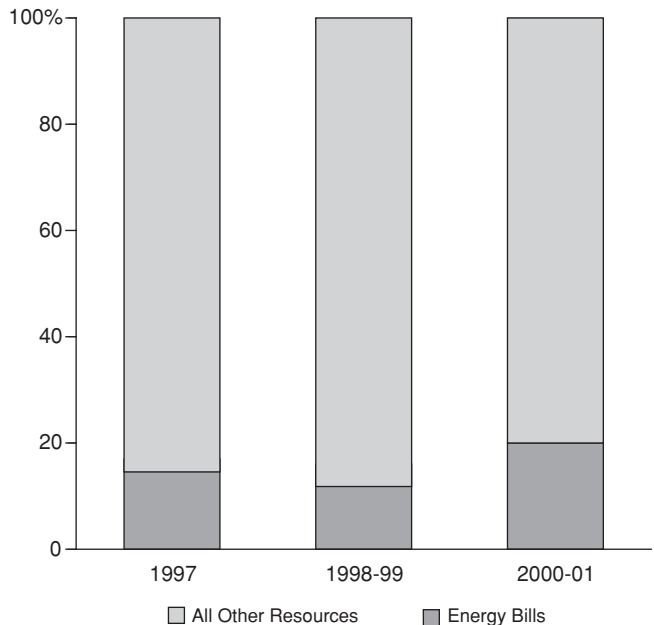


Source: Economic Opportunity Study, "The Winter Energy Outlook for the Poor," Dec. 20, 2000.

FIGURE 2

### Changes in Percent of Annual Income Needed to Pay Energy Bills of Low-Income Families

(Percent of Annual Resources)



Source: Economic Opportunity Study, "The Winter Energy Outlook for the Poor," Dec. 20, 2000.

### Emergency Funds Already Gone

Meg Power, Ph.D., who is the executive director of EOS and the author of the report, wrote, "Winter prices for all petroleum products, including natural gas, are outpacing already pessimistic expectations." Heating oil prices were projected by DOE to remain 65% higher than in 1997, a level 29% above last winter, but the estimate now has risen to 35% over last year. Residential customers' natural gas was projected to cost 40% more than in 1999 per cubic foot; now, DOE expects them to be 50% higher. Propane users will average at least 10% higher bills than last year. "For the poor, these figures are catastrophic. Their incomes are not only low, but relatively fixed. . . . The rate of change compounds the problem. In 1997, the typical eligible low-income consumer spent 14% of all annual income for all household energy bills (a calculation termed 'Energy Burden'), as compared to 19% expected" this FY 2001 (see **Figures 2 and 3**)

Interviewed by *EIR* on Jan. 9, less than three weeks after the report's release, Power reports that the latest DOE figures as of Jan. 5, show that the change in DOE's estimates is "huge" and that her report's numbers are "far, far too low — not just far too low." She estimates, "You would have to raise the Winter gas bills by almost 20%, and the oil bills by over 8%." So, as the Winter came earlier, is colder, and the prices keep zooming, America's poor are in jeopardy. Due to these circumstances, in some states, eligible households as of Jan. 1,

2001, have already exhausted their benefits, with the peak of Winter yet to come!

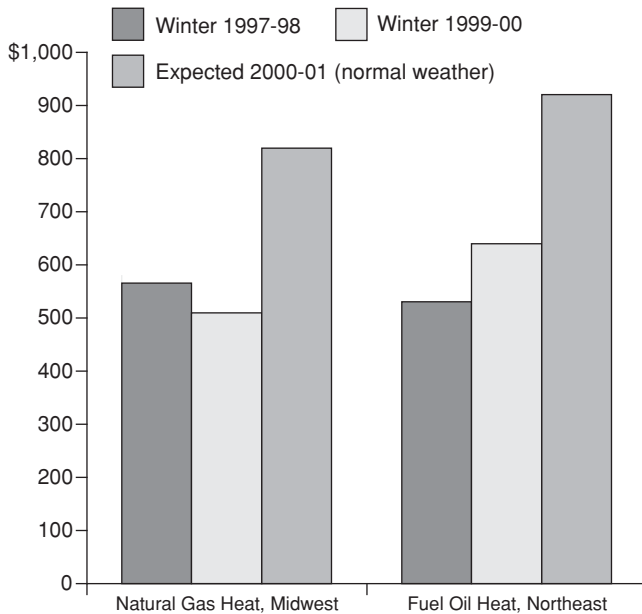
Let's look at who is suppose to be helped by LIHEAP grants. A family must have an income at or below 60% of the median income of their state to qualify. The official income ceiling is about \$21,000 for a family of three. LIHEAP funds are to help defer Winter and Summer fuel bills for low-income families. On Dec. 15, 2000, Congress, as part of its budget agreement, authorized \$1.7 billion for FY 2001 LIHEAP, including a \$300 million emergency contingency fund. Due to the horrific increases in home heating fuel prices and the very cold Winter conditions, President Clinton has already released that \$300 million emergency fund, and this was on top of his having released FY 2000 LIHEAP emergency funds of \$155 million earlier in December.

So, the total LIHEAP funds available for this Winter are the \$1.7 billion plus the \$155 million for a grand total of \$1.85 billion. (See Figure 1.) These funds have already been disbursed, and it is only January. What happens if very cold temperatures continue, or there's a price spike in gas or oil, as there was last February? There are no more funds to draw on, and thus, in crisis conditions, the Bush Administration and Congress must approve more funds — or let people freeze.

FIGURE 3

### Change in Low-Income Family Heating Fuel Bills 1997-2000

(Average Heating Bill)



Source: Economic Opportunity Study, "The Winter Energy Outlook for the Poor," Dec. 20, 2000.

**Table 1** compares the expected national average for annual energy bills, as projected from December 2000 data, and the "energy burden" for three groups of people: the very poor, all low-income households (inclusive of the first group), and the 74 million other American households not poor enough to qualify for Federal LIHEAP funds. This is an astounding picture. On average, the very poor will pay almost one-quarter, or 22%, of their annual income for home energy expenditures. For all low-income households, the average is 19%, as against the 5% all non-eligible households will pay. If we compare the 19% against the 5%, there are substantial differences depending on the type of fuel used (**Table 2**).

But when we break this out by fuel source for the 22%, the very poor, we can see why the current situation is one of life or death. This group is slightly more than 12 million households. Of these, those using oil, natural gas, or propane will receive bills for utilities and fuel equaling or surpassing one-third of their extremely limited annual income (see **Table 3**), and those using electric or kerosene will get bills totalling almost 20% of their annual income. Power explains in the report, "The poor use only 4% less heating fuel than the rest of the population's average, but their incomes average less than a third of the U.S. median income."

Winter is the worst time for America's poor. Look at the portion of the bills all low-income households will receive

TABLE 1

### Expected Average 2000-01 Household Energy Bills and Energy Burden, by Income Level

Annual Income Level of Household	Est. Oct. 00-Sept. 01 Residential Energy Expenditures	Energy Burden (Expenditures/Income)
At or less than the Poverty Guideline*	\$1,116	22%
Eligible for Energy Assistance**	\$1,694	19%
Not Eligible for Assistance	\$2,108	5%

\* The Poverty Guideline 2000 is \$14,150 for a three-person family.

\*\* Eligible is approximately 175% of poverty or less.

Source: Economic Opportunity Study, "The Winter Energy Outlook for the Poor," Dec. 20, 2000.

for just the Winter months, October 2000 to March 2001. This picture, Dr. Power writes, shows that "the national averages [Table 1] above hide substantial variation, and annual estimates hide the sharp impact of the Winter bills" (see **Table 4**).

### Trouble in the Northeast

Statistics gathered by *EIR* concerning FY 2001 demands on LIHEAP resources, for just the Northeast region of the nation, show the following. Using figures from Connecticut, Massachusetts, New Hampshire, and New York, applications for assistance, on average, among these states are up 26% over this time last year, and some states began the program early. In addition, the number of emergency requests in these states is, on average, up 68% compared to last year. The three states experiencing the largest emergency increase are Connecticut (100%), New Hampshire (86%), and Massachusetts (61%).

"It's a nail-biting Winter," one New Hampshire administrator of LIHEAP funds reported, as she described the state's ability to meet the increased demand. New Hampshire began processing LIHEAP applications eight weeks earlier than last year, largely due to high fuel prices. This official reports, "We started with higher prices, and if there is a price spike as there was last February in fuel oil, or it gets colder," the state's allocation of funds will likely not be sufficient to meet the needs of the eligible population. She also noted that this energy crisis for the poor is intersecting an affordable housing shortage. Some applicants have already exhausted their FY 2001 LIHEAP grant, and unless new emergency funds are authorized by Congress, there are no funds left to make emergency supplemental grants. Just before Clinton's mid-December release of the \$300 million FY 2001 emergency funds, New Hampshire's Director of the Governor's Office of Energy and Community Services, Deborah Schacter, testified before the U.S. Senate's Energy and Natural Resources Committee. At that time, Dec. 12, she testified, "Increased prices and rising demand for assistance have put my state in the

position of being within days of shutting down the program for all but emergencies.” A shutdown was only averted due to Clinton’s action. As of early January, however, New Hampshire officials project that they will only be able to service “about 27,000 households out of the 114,000 LIHEAP eligible households in the state, i.e., less than one in four.”

But it is not only in the U.S. northern environs where America’s poor are in jeopardy. In Louisiana, where Winter gas bills are usually painless, a disaster is looming. A Hammond, Louisiana, community action agency responsible for distributing LIHEAP funds reports, “This is an emergency crisis. Our phones are flooded with desperate calls of bills of \$600-700 per month. People on fixed incomes, whose bills were \$9 last month, are now having to pay over \$100. The weather here is extremely cold and the prices are extremely high. Something needs to be done *now*, not in March or later.”

TABLE 2

**Expected Year-Long Energy Costs and Energy Burdens for Low-Income Consumers and All Other Households, 2000-01**

Main Heat Fuel of Household	Avg. Total Energy Bills: Oct. 00-Sept. 01	12-mo. Avg. Energy Burden (% of Income Spent on Energy)	12-mo. Avg. Energy Burden Non-Eligible Households (% of Income Spent on Energy)
Fuel Oil	\$2,306	26%	6%
Natural Gas	\$1,951	22%	4%
Electricity	\$1,496	11%	3%
Propane	\$2,450	24%	7%
Kerosene/Other	\$1,509	16%	5%

Source: Economic Opportunity Study, “The Winter Energy Outlook for the Poor,” Dec. 20, 2000.

TABLE 3

**The Very Poor: 2000-01 Energy Costs and Burdens of the 12 Million Households in Poverty**

Main Heat Fuel of Household	Total: Oct. 00-Sept. 01	Avg. Energy Burden
Fuel Oil	\$2,193	37%
Natural Gas	\$1,897	36%
Electricity	\$1,053	18%
Propane	\$2,298	32%
Kerosene/Other	\$1,388	17%

Source: Economic Opportunity Study, “The Winter Energy Outlook for the Poor,” Dec. 20, 2000.

In the city of Monroe, the local newspaper, *The News-Star*, featured the plight of seniors who live on fixed incomes. The Helping Hands program for seniors there reports callers complaining “of \$525 bills, and \$380 bills . . . and so on. One woman called and said her bill went from \$40 a month to \$280. She simply can’t pay it.” Another senior whose monthly bill went from \$144 up to \$524, due to the skyrocketing price of natural gas, is quoted, “What am I going to do? You have to have heat. I’m anemic so I can’t do without it. I can’t pay this and I don’t know where I’ll go if they cut off my gas.”

Power states in her report, “In 1997, a year with similar temperatures, but far lower prices, more than 1.1 million low-income families had their heat shut off for ten days or more in Winter because they could not pay.” Most states, she reports, do not have regulations prohibiting utility shutoffs except for 24-hour periods when it is below freezing. New Hampshire’s public utility commission this year passed a Winter moratorium on cutoffs for low-income families as long as they make efforts to pay. Connecticut has such a moratorium in place as well.

Clearly, nothing short of an FDR-style mobilization of resources to avoid this catastrophe, will protect these citizens.

TABLE 4

**Expected Average 2000-01 Winter Energy Costs for Low-Income Consumers**

Main Heat Fuel of Household	No. of Low-Income Households (27m HH)	Avg. Heating Fuel Bill Oct. 00-Mar. 01	Other Energy Bills (Lights, Appliances, Hot Water, Cooking)	Total Bills: Oct. 00-Mar. 01	Energy Burden: Winter Energy Bills Share of Winter Income
Fuel Oil	2,700,000	\$980	\$337	\$1,317	29%
Natural Gas	13,800,000	\$822	\$289	\$1,111	27%
Electricity	8,600,000	\$598	\$113	\$711	17%
Propane	540,000	\$701	\$294	\$995	26%
Kerosene/Other	1,400,000	\$317	\$437	\$754	16%

Source: Economic Opportunity Study, “The Winter Energy Outlook for the Poor,” Dec. 20, 2000.

# Energy Inflation Also Devastates Mexico

by Juan José Mena Carrizales

Mexico will be one of the countries most affected by the collapse of the United States economy, because of the extreme integration of their two economies, which is seen, in particular, in the fact that most of Mexico's production is geared to exports to the United States, especially since the North American Free Trade Agreement (NAFTA) was signed in 1993. The first ravages of this aspect of the world depression have already begun to be felt in Mexico, in the national industry, and the *maquiladoras* (virtual slave labor assembly plants along the U.S.-Mexico border) as well.

The first shock wave of the international financial collapse, the inflationary rise in the cost of raw materials and energy, hit Mexico in the price of natural gas. Gas is used as the leading energy source in the steel, glass, ceramics, and chemical manufacturing industries, and is also a raw material for some other industrial processes. Over the last year, its price nearly quintupled in value, a hyperinflationary increase (see **Figure 1**).

The price of natural gas in Mexico rose from \$2.23 per million British thermal unit (BTUs) in January 2000, to

\$5.775 by December 2000. In January 2001, the price hit \$9.57 per million BTUs. The price of natural gas in Mexico is set by the Secretary of the Treasury and Public Credit, using a formula based on the international price of West Texas gas.

The destructive indifference of the federal government, in the face of the crisis provoked by the exorbitant increase in the price of gas, was exemplified by Secretary of Energy Ernesto Martens's Jan. 11 statement that "the average price of natural gas during 2000 was \$3.5 per million BTUs, and I don't see how this price could decapitalize companies." Of course, Mexican industrialists do not pay some nonexistent "average" price, but the almost \$10 per million BTUs which gas now costs.

Martens's dismissive statement was used by some Mexican business groups as an excuse to justify the campaign of the international financial oligarchy to get their hands on Pemex, the state oil company, through its privatization. These businessmen — misguided, or worse — promoted the idea that Pemex was the agency which fixed the price of gas. They accused it, even, of implementing monopolistic practices, when they themselves had promoted NAFTA and its side accords, which pegged the gas price in Mexico to the international reference price.

The list of companies wounded, some mortally, by the gas price rise, is growing. During the last months of 2000, numerous businesses throughout Mexico reported either a partial or total shutdown of production, including:

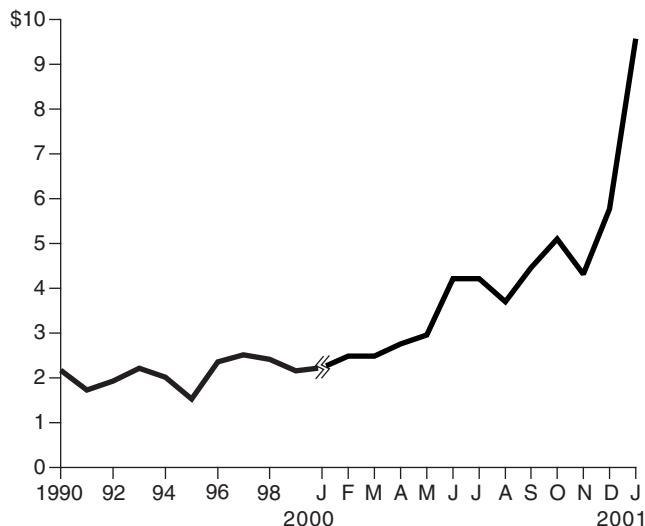
- Hojalata y Lámina, S.A. (HYLSAMEX), a subsidiary of the Alfa Group, on Sept. 21, 2000, shut down operations at its sponge-iron furnaces at two Monterrey plants and a Puebla plant, and its iron mines in the states of Colima, Jalisco, and Michoacán, resulting in a loss of 6,000 direct jobs, and 1,250 indirect jobs.
- Minera Autlán, a subsidiary of the Ferrominosa Group, shut down a smelter, reducing the production of manganese, and partially closed operations at the Molango mine in the state of Hidalgo, on Nov. 28, affecting 200 workers directly.
- The steel company ISPAT temporarily suspended operations at its Lázaro Cárdenas plant, because of the price of gas. The company transferred production to its plants in India and Trinidad and Tobago, leaving more than 3,000 Mexicans out of a job.
- Altos Hornos de México reported that it had laid off 620 workers between the end of the year 2000 and Jan. 16, 2001, "to save \$12 to \$14 million."
- Six small glass companies also closed; here the number of workers left jobless is unknown.

## Production Comes First, Says MSIA

The Ibero-American Solidarity Movement (MSIA) in Mexico, associated with the ideas of Lyndon LaRouche, intervened into the crisis, presenting Senators and other officials with a proposal that the price of gas be fixed at \$2.5 per million BTUs, under the powers which the Constitution provides to the government of Mexico to protect the public interest.

FIGURE 1  
**Mexico Natural Gas Price**

(\$/million BTU)



The MSIA mobilized demonstrations and took to the airwaves, bringing to the public's attention the ten-point emergency energy plan drafted by U.S. Presidential precandidate Lyndon LaRouche. In October, the MSIA brought Nevada state Senator Joe Neal (D) and *EIR* Editor Paul Gallagher into Monterrey, the leading industrial city in Mexico's north, where they gave public conferences, newspaper, radio and television interviews, and held private meetings with industrialists, explaining the international speculative dynamic which was causing these problems in Mexico. The MSIA also strongly promoted, above all at Monterrey's several universities, the idea that the financial crisis must be turned into the opportunity to take up, again, the infrastructure and nuclear development projects required to reactivate the economy.

After a flood of advertisements in the press and declarations by national industrial associations and trade unions (the steelworkers, metalworkers, etc.), on Jan. 16, Energy Secretary Martens, in a joint press conference with Secretary of the Economy, Luis Ernesto D rbez and industrialists, announced that the government would offer longer-term "hedge" contracts, fixing the price of natural gas at \$4 per million BTUs for the next three years.

It was a minimal concession in the face of the economic and social disaster that loomed. And, as in the case of California, emergency measures had to be taken, to head off a greater catastrophe. Although the measure will permit some companies to reopen some of the operations they had shut down, others can no longer do so.

### Next Come the Maquiladoras

The international crisis is hitting not only Mexico's national industrial sector, but also the *maquiladoras* assembly plants, whose exports are held up as the supposed salvation for Mexico under globalization, so praised by President Vicente Fox.

The automobile assembly industry will be the worst affected, given that 75% of its production goes to the U.S. market, according to the figures of the Mexican Automobile Industry Association. In the United States, General Motors Corp. announced plans to reduce its world production by 21% in the first quarter of 2001, over what it produced in the same period in 2000. That announcement followed those of DaimlerChrysler and Ford Motor Co., that they will cut production in the first quarter by 26 and 17%, respectively. The three firms have plants in Mexico.

The first effects are already being felt in the north of the country, where the *maquiladoras* are concentrated. In the north, there were many industrial towns, of 5-10,000 inhabitants, in which a mining company or a steel or iron plant used to be the center of economic activity, and for which the whole population worked, directly or indirectly. However, under the NAFTA government of President Carlos Salinas de Gortari (1988-94), many of these once-state-run companies were privatized, and shortly thereafter went bankrupt.

Many of these towns would have become ghost-towns,

because the population no longer had any place to work, were it not for the fact that the *maquiladoras* came in, to replace the bankrupted national industrial firms, and to take advantage of the cheap labor of the unemployed. Today, many of these are "*maquiladora* towns."

In the northern state of Coahuila alone, 7,000 people were taken off the rolls of the Mexican Social Security Institute (IMSS) in the last few months; 1,000 of those worked for DaimlerChrysler. Workers are removed from IMSS's rolls when they have gone three months without work.


Delphi Automotive Systems, the largest *maquiladora* in the country, employing 75,000 workers, has laid off 5,000 people from its plants in the states of Tamaulipas, Chihuahua, and Quer taro, since July 2000. On Jan. 9, Delphi's Michael Hissam announced that Delphi would be cutting its production and personnel by 50% over the next two years, although, strangely, two days later, another company spokesman denied the report. At least 70% of Delphi's production goes to General Motors.

As is evident, unemployment and the shutdown of productive industries in Mexico are arriving, although still as small tremors or quakes. But in Mexico, outside of the actions of the MSIA and LaRouche's proposals, almost no one has yet to question the tectonic fault which is producing them: NAFTA and the insolvent world speculative system of which it is a part.

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# LaRouche, Other Top Economists, Talk to ‘Smart Investor’ Magazine

In Fall 2000, Long Shih Rome, editor of the Malaysia- and Singapore-based magazine *Smart Investor*, circulation 20,000, invited *EIR* Founding Editor Lyndon H. LaRouche, Jr. to contribute to a two-part series, with three other prominent economists, on ongoing debate among and between the ten-member Association of Southeast Asian Nations (ASEAN) and its “plus three” dialogue partners, China, Japan, and South Korea. That debate included, in the Fall of 1997, Japan’s Eisuke Sakakibara’s proposal for an Asian Monetary Fund (AMF), followed in September 1998 by the imposition of selective capital controls in Malaysia, and, in May 2000, the Chiang Mai Initiative, in which the ASEAN-Plus-3 launched currency-swap agreements and other steps toward forming the AMF.

Appropriately, Long Shih Rome titled his October 2000 editorial introducing the series, “Asia Revisits Bretton Woods.” We reprint below the entire interview with Lyndon LaRouche, and summarize briefly the interviews with the other three economists: Robert Mundell, Joseph Stiglitz, and Dr. Mohamed Ariff.

The 1999 Nobel Laureate, Prof. Robert Mundell of Columbia University, starts from the premise that the U.S. stock market had already crashed by October 2000. “I think,” he said, “there will be another correction, but it is not going to be such a devastating crash. The big risk would be that if the U.S. economy slows after it has come up, the dollar will start to weaken.” Asia needs to move toward a common currency, he argues, but given wide disparities among the region’s economies, compounded by tumultuous conditions in the largest ASEAN member, Indonesia, he recommends a parallel currency “that wouldn’t replace national currencies, but would be used for trading in Asia. It would have to be a stable parallel currency and it would have to be anchored to the U.S. dollar at the present time.” He strongly supports the (colonial) currency board system, pointing out that the European monetary union (for which Mundell was a leading architect) “is like a currency board arrangement. It imposes on the country the monetary policy that takes place within the currency board. And that is a viable system.”

Former World Bank chief economist Prof. Joseph Stiglitz is cautious about the idea of a common currency, and explicitly relates Malaysia’s selective controls to fighting “speculative hot money.” “The Asian Monetary Fund,” he says, “is a very good idea: the notion that the countries in the region should cooperate in enhancing the stability of the financial

system and make themselves more independent of the IMF, which has shown remarkable insensitivity to the differences in the situation in East Asia and in Latin America. It would seem to me that if there was another crisis, they shouldn’t be as dependent on the IMF as they were in the last crisis.”

Dr. Mohamed Ariff, executive director of the Malaysian Institute of Economic Research, recommends a two-step process to free the Malaysian currency, the ringgit, from the fixed rate set in September 1998. “As an economist, I want to get the price correct, the price should really reflect supply and demand. That’s why I believe the market should be the best judge of what the prices should be.” Short of that, Dr. Ariff is positive on the idea of a parallel currency that is part of a system based on three major currencies.

The following is the full text of Mr. LaRouche’s replies to the editor’s questions.

**Q:** In your latest article [July 18], you mentioned that you oppose the fixed-exchange-rates system based on a regional basket of currencies. What are the reasons for this view and what alternatives are you proposing? Perhaps you can explain the proposal for a basket of hard commodities in simple terms.

**LaRouche:** As a simple reply to that question, a basket of currencies will not be a durable, or even semi-durable arrangement under the conditions of the presently onrushing collapse of the existing globalized, IMF-centered monetary and financial system. That collapse will be extremely chaotic, with accompanying, wild short-term fluctuations in relative values of currencies.

A basket of commodities, if defined in the way I have presented the case in both my July 18 “Trade Without Currency” (*EIR*, Aug. 4, 2000, Vol. 27, No. 30) and Aug. 15, “The Art of Management” (*EIR*, Sept. 8, Vol. 27, No. 35) reports, is the only workable alternative, under the circumstances which will continue to worsen until a new global monetary system, like that of 1945-1965, is re-established to replace entirely the presently hopelessly bankrupted form of the IMF. Happily, such a basket of commodities would continue to be a viable standard for trade and investment under the conditions a sane new monetary system would be established.

As comment on the referenced question, and also on related views expressed in the queries which follow, I emphasize the significance of the fact, that even most among those parties currently associated with the discussion of an Asia



One of the issues of Malaysia- and Singapore-based Smart Investor magazine, in which the debate among leading economists, over the future of an Asian Monetary Fund, has involved Joseph Stiglitz, Robert Mundell, Lyndon H. LaRouche, Jr., and Dr. Mohamed Ariff.

Monetary Fund, have been blocked by obvious fears from facing the reality that the present world financial and monetary system is in the terminal phase of its existence. No proposal to work within the doomed system could be successfully implemented under these conditions.

What seems to me to terrify spokesmen from ASEAN-Plus-3 nations the most, is the fact that a collapse of the U.S. financial market means a sudden collapse in the levels of exports to the U.S.A. Any plans by ASEAN and other nations for surviving an inevitably early U.S.A. financial crisis, must be based upon plans for survival under conditions that the U.S. market for exports from ASEAN, China, Korea, and Japan will have collapsed drastically and suddenly, even if that will be, hopefully, only a relatively temporary state of affairs. No measure by Malaysia itself could alter that essential inevitability.

One must not fear the inevitable collapse of U.S.A. import levels. One must accept that fact, and prepare to survive without dependency upon continued ties to a doomed sort of globalized financial system. One must learn the lesson of Malaysia's correct responses to the world financial crisis of 1997

and 1998. Do not try to please the tiger; he will only eat you all the more quickly. Defend yourself against the predators like Soros and those Anglo-American financier-predator interests behind him.

**Q:** Is a second Asian currency shakeout imminent considering the weak [Indonesian] rupiah, [Thai] baht, and [Filipino] peso? Without central banks' intervention, do you think the baht or any other Asian currency would have weakened more?

**LaRouche:** The only way in which the terrible impact of a new round of chain-reaction financial and monetary collapse could be resisted effectively, would be a sudden and extensive resort to a combination of: a) strict capital and exchange controls, b) domestic financial and related regulation, and c) establishing an emergency package of combined short-term, medium-term, and long-term capital and trade agreements among a group of nations which represent, in aggregate, the most essential elements of a full-set economy. Heavy emphasis must be placed on long-term development of improvements in basic economic infrastructure, as an alternative to collapsed export markets, as U.S. President Franklin Roosevelt did in defending the U.S.A. from the worst effects of the 1930s Depression.

The collapse of revenues from current exports into the U.S.A., which is already threatened for the near term, and which will be initially very deep, must be offset by intra-Asia trade based upon medium-term and long-term capital improvements, especially in the category of basic economic infrastructure. Internal regulation of economic affairs, and kindred forms of agreements reached among partner-nations, will be of the most crucial importance.

**Q:** How do you think we can address the problem of a volatile U.S. dollar? If the U.S. dollar strengthens, it would make the ringgit too expensive in non-U.S. dollar markets like euro and yen zones. If the U.S. dollar weakens, it would raise our import costs denominated in yen and euro.

**LaRouche:** For the moment, no plans should be made which depend upon wishes for a helpful role from any among the five nations of the Anglo-American Five. These are the United Kingdom, Canada, Australia, New Zealand, and a Wall Street-dominated U.S.A. The present prospect, that either Governor George W. Bush or Vice-President Al Gore, might be elected U.S. President in November 2000, means the menacing tendency for escalation of the worst possible economic and other policies by all of the Anglo-American Five toward the nations of ASEAN, China, Korea, and Japan. Nations should not be blind to the fact, that the heated attacks upon Russia, immediately following the U.S. Republican and Democratic parties' Presidential nominating conventions, are not merely a new threat-posture of the Anglo-American Five toward Russia, but also toward the nations of the ASEAN-Plus-3 group.

However, we must not overlook the probable changes in



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*The currently popular form of the widespread dogma among economists and others, that financial capital is needed for economic growth, is a myth which, in strong doses, has an effect upon a national economy akin to that of alcoholic beverages or psychedelic drugs upon the driver of an automobile.*

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Japan's policies toward the U.S.A., and some changes in a similar direction from France and others, under rapidly sharpening present world-crisis conditions. I will not guarantee that Japan will react as I would hope it would, but my hope that it will is not groundless. Obviously, the success of such a change in policy would depend upon positive improvements in cooperation between Japan and China. Without the kinds of trade agreements centered upon long-term capital improvements in basic economic infrastructure, there is no way in which to avoid the very worst results of the onrushing collapse of the present, Anglo-American Five-dominated, globalized world financial and monetary system.

**Q:** What is the fair rate for a currency? The PPP method is said to be impractical because of trading costs slowing down the adjustment between domestic prices and exchange rates.

**LaRouche:** All assessments and assumptions premised upon what had become widely accepted pro-monetarist dogmas among the majority of economists, should be discarded as if they were carriers of a pandemic plague. The possibility of improvements in economies, and of even minimizing the effects of the onrushing world crisis, depends absolutely upon a traditionally protectionist role of the sovereign nation-state, and, hopefully, closer cooperation among such states in the cause of mutual defense against the follies and doom of the Anglo-American Five's current policies and practices.

**Q:** To avoid becoming uncompetitive if the U.S. dollar appreciates, some economists suggest a three-way peg of the [Malaysian] ringgit. Would a currency peg with the euro and the yen be successful or would financial markets react negatively to this?

**LaRouche:** If what are considered the relatively most radical proposals from supporters of the Asia Monetary Fund are adopted and implemented with aid of long-term capital and exchange controls and trade agreements, the best possible defense of the level of production will be attained. How that will work, is indicated in general and also in unusual depth, in my "Trade Without Currency," and in the item appearing in the Sept. 8 edition of *EIR*, "The Lost Art of Management."

You will note there, that although those pieces imply a strong orientation toward the hope of successful measures among the ASEAN-Plus-3 nations, they also feature strong

emphasis on hope of cooperation with some nations of continental Europe, and also, hope that a great shock will bring the policy-making of the U.S.A. back to the sanity from which it has so long departed.

**Q:** Inflationary pressures are mild in Malaysia, hence there is little risk of depreciation if the ringgit is floated. What are the risks of currency attacks now that hedge funds are being downsized globally?

**LaRouche:** The evidence that the ringgit has stabilized, is chiefly to the credit of the government's relatively modest deployment of elementary, and indispensable protectionist measures. If the ringgit were now floated, the relevant predators would immediately and successfully attack and destroy the currency, as they have the rupiah. The fact that sanitary measures have slowed greatly the spread of a pandemic, is not to be taken as a premise for suddenly abandoning public sanitation.

**Q:** How may banks and world governments regulate the risk of a potential Long Term Capital Management (LTCM)-like collapse? Is writing off the derivative debt a solution?

**LaRouche:** There is no existing animal, in the jungle or elsewhere, worthy of the name of a potential LTCM-like collapse. Such collapses are now inevitable for the near term, and to attempt to revive them would amount to a futile effort to reawaken the dead. The condition of such organizations is already past terminal, and their extinction the most merciful thing to be done at this juncture. Writing off the derivative debt, is not an option; it is an inevitability. Either eliminate all such forms of debt, in a sweeping way, or there will soon be no nations or economies standing.

**Q:** You mentioned that a current account surplus is not a good thing for a growing economy. Eventually, a current account deficit will occur because the economy needs new capital to grow. When do you foresee this, and is this the best time to float or depeg the ringgit?

**LaRouche:** The object should be to avoid a persisting current account deficit at all costs. The best means to accomplish this, is through relevant capital, currency, and financial controls, and relevant long-term trade-agreement partnerships.

The currently popular form of the widespread dogma among economists and others, that financial capital is needed

for economic growth, is a myth which, in strong doses, has an effect upon a national economy akin to that of alcoholic beverages or psychedelic drugs upon the driver of an automobile. What is needed is long-term physical-capital formation, that both in basic economic infrastructure and in the technology of productive capital. The objective should be, to find partners who will supply physical capital goods and related technological assistance of that sort at long-term costs of borrowed credit near to 1% rate of annual simple interest. Thus, what would otherwise be a cause for long-term capital accounts deficit, is turned into a source of financial and monetary stability for both the importing and exporting partners, and a source of long-term growth, as growth is measured in physical terms, per capita and per square kilometer of national territory as a whole.

I would never recommend depegging the ringgit. That, under present, or foreseeable near-term conditions, would be the ruin of the nation.

**Q:** What is your view on the Asian Monetary Fund? Do you think Asian central banks can successfully build a currency bloc even though it may not be a single currency?

**LaRouche:** From the beginning, I have consistently supported the idea of the Asian Monetary Fund, and still do. However, I never suspected that the honorable Sakakibara had suggested, that such a fund, by itself, would cure all sicknesses. It is potentially a valuable part of a package of actions.

For example, in order to bring about a success for measures of that type, it is indispensable to reach certain agreements among Japan and China, in addition to Korea, in addition to agreements within the ASEAN nations. There must be a very broad economic basis, and also a source of advanced technology which can not come into being until a certain state of mind is reached between Japan and China. In the meantime, we must take steps which go in that direction, and which will be helpful in promoting the kinds of cooperation needed to establish an approximation of a partnership of full-set economic potential in Southeast and East Asia as a whole.

A basket of currencies will not work, for reasons I have identified above, and have elaborated in the referenced recent reports by me. We need an index-value based on a basket of commodities, an index which approximates the function of the gold-reserve-based, protectionist IMF system of 1945-1958.

**Q:** Do you think that the disadvantage with the regional agreement to support each other's currency is that financial markets will take it as a sign of weakness when a buffer fund is being called upon to support specific currencies?

**LaRouche:** If a nation is threatened, then its securing new volumes of armaments may be seen as a sign of the weakness represented by the current threat. However, not to rearm, would be the kind of act of cowardice which provokes the predators' thus virtually assured attack.

**Q:** How do you see the economic health of Malaysia vis-à-vis the region? If Japan does not recover from 1.5% GDP growth this year to the projected 2.5% next year, would Malaysia and South East Asia suffer badly?

**LaRouche:** Of course, that, if considered only by itself, without considering other matters, would make matters in Malaysia more difficult. However, there is nothing in the present world situation which does not already threaten all of Southeast Asia, and China, too, with much vaster pain than a mere slowing of Japan's own growth might tend to bring about. Again, to those who pose such questions, I reply: No matter what you do, or do not do, the present world financial and monetary system is presently in its terminal phase. Wisdom means to accept that fact, and to prepare to take the measures which you would have wished to have taken when this inevitable, early chain-reaction of collapse erupts, very soon.

**Q:** With capital controls, do you think the Asian countries will be more insulated from a crash in Wall Street or a hard landing in the U.S. economy?

**LaRouche:** Insulated is much too strong a word. There is no way in which Malaysia, for example, could be insulated against the inevitable crash of the world's presently globalized financial and monetary system. The word to be sought, should not be insulation, but the more modest one, sovereign national survival.

The common recurrence of such questions, reflects the popularization of that very philosophy of Locke, Hume, Adam Smith, and the British utilitarians and European logical-positivists generally, which often leads even the majority of the people of modern nations into bringing about their own ruin. It is not only moral corruption which prompts some political leaders and others to appeal to the cupidity of the individual member of society. By appealing to short-term desires of the weaker majority of society's members for sensual gratification, corrupt leaders are able to bring about the fall of those governments which are the best defenders of the interests of both the present and future generations of the population and nation as a whole.

The doomed nation is often the one which had eliminated those leaders who will lead the people away from the pitfalls of small-minded preference for personal advantage, which leads them, with the aid of such temptations, in ways leading to the doom of the survival of the nation as a whole. "Think of your personal greed," the corrupt ones promise; "Support me, and I will then give you . . .," the corrupters whisper. I hear such whispers floating in the air in the continuing effort to destroy Malaysia, by ending the policies which had protected it from the worst of what Malaysia's neighbors have suffered.

Weaker political figures, in their efforts to please the corrupted, will say, "Isn't there some way we can compromise with Satan?"

## Selling Off the Farm

*The Australian Treasurer is giving away national resources to the British Crown's raw materials cartel.*

On Dec. 27, the mining company Rio Tinto, of which the Queen of England is the single largest shareholder, paid \$1 billion for the Australian coal mines of the U.S.-based Peabody Resources, bringing its total acquisitions in Australia for Y2000 to \$7 billion. The purchase makes Rio Tinto the largest producer of coal in Australia; it was already ranked number one in the production of iron ore, diamonds, bauxite, copper, and zinc. As the world plunges into the worst economic/financial crash in centuries, the Crown's raw materials cartel is seizing control over the vital raw materials upon which nations depend to survive.

Rio's acquisition of Peabody's coal mines is the third time this year that the Queen's men at Rio have trumped other foreign competitors in grabbing Australian resource assets, in this case Anglo American, Billiton plc, and Glencore International. In August, Rio, the world's second-biggest miner, outbid the biggest, Anglo American, for control of North Ltd., an Australian iron ore producer (and the world's fourth largest), for \$3.8 billion. In November, Rio defeated Anglo's sister company, De Beers, for control of Ashton Mining, which won it 100% ownership of the Argyle Diamond Mine, the world's largest, located in the Kimberley region of Western Australia.

In both cases, the sales were cleared by the federal government's Foreign Investment Review Board (FIRB), which was established in 1976 to ensure that major foreign investment into Australia was "in the national interest." However, for the past decade, the FIRB's charter has seem-

ingly been changed to read, "in the multinational interest": In that time, foreign investment has almost doubled to over 21% of GDP! In 2000 alone, foreign investment bids doubled to \$26 billion, \$7 billion from Rio's buying spree, and another \$10 billion from the hostile takeover bid for Woodside Petroleum now under way by Royal Dutch/Shell, which latter is jointly owned by the Dutch and British royal houses.

While the Shell bid is as yet undecided, the FIRB gave Rio's \$7 billion grab free passage, and not surprisingly, either: The FIRB's three-member board includes Lyn Wood, a former director of three foreign banks (American Express, Citicorp, and Schroders), and John Phillips, a director of resource giant WMC Ltd., which, while nominally Australian, was founded by wartime MI6 intelligence agent William Sydney Robinson, who later also founded Rio's Australian subsidiary, CRA.

Furthermore, the FIRB is controlled by Australia's Federal Treasurer, Peter Costello, a leading light of the Mont Pelerin Society front, the union-busting HR Nicholls Society, and formerly a lawyer for Rio Tinto!

However, the plundering of Australia's assets has expanded so greatly, that it has been recently attacked even by members of Costello's own Liberal Party. Colin Barnett, the Resource Minister of the State of Western Australia, Australia's biggest raw materials producer, has sharply criticized the FIRB's approval of Rio's takeover of North Ltd., which gave Rio total dominance of Australia's iron ore industry, and stopped a \$500 million investment

in new rail infrastructure in Western Australia, to which Rio's rival bidder, Anglo American, was committed. The FIRB granted Rio favored treatment, as an "Australian" company, giving it approval just five days into the 30-day FIRB vetting process. Rio had demonstrated how "Australian" it really was, shortly after it was formed out of the merger between the London-based RTZ plc and the Australia-based CRA in 1995, when, despite previous promises that the company "would be equally divided between the United Kingdom and Australia," it immediately fired most of the CRA office staff, and pulled all senior management back to London.

In November, Barnett accused the FIRB of favoring Rio again, over its rival De Beers, in granting Rio control over Ashton Mining, though the two had bid the same price. However, Barnett's biggest blast was reserved for the FIRB's "lack of interest" in Shell's bid for Woodside, the "most significant foreign investment issue Australia has faced in the post-war period." If successful, Shell's bid would see the extremely rich North West Shelf liquefied natural gas (LNG) project, which produces 10% of the entire world's exports of LNG, fall into foreign control. "This is not just about Woodside shareholders," Barnett told the Jan. 9 *Australian Financial Review*. "Australia would be extraordinarily short-sighted to hand over control of its petroleum resources to a foreign entity. It would be the only country in the world that would allow such resources to fall under foreign control."

Despite the last-minute protests organized by Barnett, Costello is expected to allow Shell's bid to go ahead. Shell and Rio share the same lawyers, Freehill Hollingdale and Page, specialists in union-busting, and stalwarts of Costello's HR Nicholls Society.

# Business Briefs

## Tanzania

### AIDS Threatens Nation's Survival, Says President

Tanzanian President Benjamin Mkapa said that "HIV/AIDS is a veritable threat to the very survival of our nation, to our socio-economic development, and to our welfare," in a New Year's message on Jan. 1. The Pan-African News Agency reported the story under the headline, "AIDS Threatens Tanzania's Survival."

"Statistics on our situation are very worrying," Mkapa said. He said that there were at least 600,000 orphaned children under the age of 15, who had already lost both parents to the disease as of the end of 1999. "Add those orphans who have died since the onset of the pandemic, and the total reaches beyond 1 million orphans," he said.

Mkapa said that at least 1.7 million Tanzanians are currently HIV-positive. Bed occupancy with underlying HIV infections in urban hospitals is 50-60%. "I plead with you not to harden your hearts regarding this matter. The urgent task ahead of us is to stop the further spread of the virus, so that those that are not yet infected should remain uninfected," he said.

## Africa

### 'Growth Triangle' Modelled on Asia

The approach to economic growth that was pioneered by Malaysia and other Southeast Asian countries is being tried by Zambia, Malawi, and Mozambique, three of the poorest southern African nations, according to an article on Misanet.com/Afrol.com. Without the participation of South Africa, the effort is expected to be on a very small scale, but it reflects the degree to which southern Africa is looking toward Southeast Asia as a model. In particular, Malaysia took steps to defend itself against the global financial collapse which broke out in Asia in 1997-98.

"The model is the Asian Tigers' economies of Southeast Asia," the article said. It quotes Malawian Vice President Justin Ma-

lewezi, in his address upon the formal launching of the project in November 2000, who said that Africa could claim this era as the African millennium only if countries started their own development initiatives. He said that the challenge that the partners in the initiative have, is to create wealth, so as to eradicate poverty by creating new jobs and encouraging an environment that would bring benefits to the rural populations.

Peter Kaleso, the Malawian Minister of Commerce and Industry, said that the "Growth Triangle" would enhance cross-border trade and investment among the three countries. "We remain convinced that the success story [of Southeast Asia] is a living testimony of what can be achieved with determination and hard work."

## Asia

### LaRouche Echoed on Importer of Last Resort

Lyndon LaRouche's warning, that the economic collapse in the United States threatens economies throughout the world that have adapted to globalization and now depend on exporting to the U.S. market (see "The Demise of an Importer of Last Resort," *EIR*, Jan. 19, 2001), was echoed by David Ignatius, in a commentary in the Jan. 14 *Washington Post*.

Entitled "The Greenspan Effect in Asia," Ignatius writes, "Travel across Asia for two weeks and you begin to see the global economy as a vast central nervous system—with the nerve endings stretching out to every factory and assembly plant from Singapore to Seoul—all connected to the brain of Alan Greenspan. . . . The Fed chairman's sudden decision two weeks ago to cut interest rates half a percentage point was like a code red alert to Asia: U.S. downturn coming! Pulse weakening! Prepare for trouble!"

"'If Americans stop buying, that's trouble,' Singapore's senior minister, Lee Kuan Yew, said. Asian business executives were already seeing the signs of softness in their order books. Demand for the components of the New Economy—semiconductors, disk drives, circuit boards—had been sagging over the last few months, in an early warning

of the U.S. economic malaise. 'We take it that Greenspan must be worried, and he must know more than we know,' said a top Hong Kong policymaker. 'We are especially concerned about the impact on Asian economies.'"

Ignatius comments, "For nearly a decade, the world has been able to count on a robust America as the engine of global growth. Now the U.S. economic pulse is finally slowing, and people at the other end of the global nervous system are frightened. The global economy has been built on the illusion of never-ending American prosperity. . . . The Asian economies will have to sweat out the sudden American downturn, and hope Dr. Greenspan's magic pills will work."

## Economic Policy

### India Calls for New Petroleum Order

India's Petroleum Minister Ram Naik called for a New Petroleum Economic Order, speaking at the Fourth International Petroleum Conference and Exhibition (Petrotech 2001), *Asia Pulse* reported from New Delhi on Jan. 10. "The experience of the recent past, when international crude prices have more than tripled in just one year, calls for evolving a better world petroleum economic order which will ensure long-standing, mutually beneficial economic and trade relations among the oil-producing and oil-consuming nations," he said.

This perspective has also been taken by Lyndon LaRouche, who called for a return to state-to-state oil deals (see "LaRouche: Bring Oil Price Inflation Under Control," *EIR*, Sept. 29, 2000).

The new petroleum order should address the energy security concerns of developing countries like India, while insulating them from price fluctuations in the international market, Naik said, adding that price security is an important aspect in sourcing of crude oil and petroleum prices.

"There is a need for all of the developing oil-importing countries to engage the oil-exporting countries at the political level to ensure reasonable prices. On its part, India has

**JORDAN AND IRAQ** are planning to revive the project of setting up a rail link. A joint committee will be formed to re-study the project, which will first link their capitals, Amman and Baghdad, respectively, and later link the port of Al-Aqaba.

**U.S. RETIREMENT** funds can expect to show substantial losses from 2000, when statements arrive in January, according to the Jan. 13 *Richmond Times-Dispatch*. As of 1999, Americans had more than \$1.5 trillion invested in employer-sponsored retirement programs called 401ks.

**XEROX** Corp. has hired the Blackstone Group as its bankruptcy adviser for "restructuring," the Jan. 9 *New York Post* reported. Xerox recently sold off its Chinese operations for \$550 million, as part of selling off \$4 billion of its assets. Xerox has \$7 billion in bank debt, with the merged J.P. Morgan-Chase holding \$750 million.

**EL SALVADOR** is facing an epidemic of life-threatening childhood diarrhea, caused by a rotavirus. The government is reportedly resisting declaring an emergency, though requested to do so by doctors who are treating 5,000 cases.

**SOUTH AFRICAN** President Thabo Mbeki will outline his all-African development project, called the Millennium Africa Program, at the World Economic Forum in Davos, on Jan. 25-30, his spokesman said on Jan. 14. The plan, billed as a sort of Marshall Plan, aims to coordinate African nations' approach to debt, investment, and human and infrastructure development.

**BANGLADESH** and India began talks on Jan. 12 aimed at an agreement on sharing the water, and sharing flood information, from the six rivers which flow through both nations. Bangladeshi experts blame India for the flood that ravaged Bangladesh last year. They say that Indian authorities opened the sluice gates of dams after heavy monsoons without informing Bangladesh.

taken up the matter at several international forums and impressed upon the oil-exporting nations the need to have a special pricing package for the developing countries in high oil price situations," Naik said.

Meanwhile, Venezuela's state-owned oil company, Pequiven Petroquimica de Venezuela SA (PDVSA), which is the second-largest oil company in the world, is exploring long-term contracts for oil supplies with Indian firms. PDVSA sold its first load of crude oil to India last year, when Reliance Petroleum bought 1.07 million barrels. Subsequently, the firm sold another 7.4 million barrels to Indian companies. "We are talking to both private and public sector companies," Aires Barreto, vice-president of PDVSA, told a news conference.

India is now in the process of working out bilateral oil deals to reduce its dependency on the spot market.

## Health

### Use DDT in Fight Against Malaria, Scientists Say

An open letter signed by 380 scientists from 57 countries, calls for the use of DDT in the fight against malaria, the German daily *Die Welt* reported on Jan. 3. As *EIR* has documented repeatedly, the use of DDT has saved hundreds of thousands of people's lives—whereas the murderous, racist, and oligarchical-motivated campaign against DDT and the end of its widespread use have produced as many victims.

For example, in Sri Lanka, within one decade, the malaria incidence was reduced from 2.8 million cases per year to 17; the number of deaths, from 7,300 per year to zero.

In Madagascar, within two years, the malaria incidence could have been reduced by 90%. But, in the early 1980s, the fight was stopped in Madagascar. The result was that in 1986 alone, 100,000 people died from the disease.

The environment agency of the United Nations, the UNEP, wants to ban DDT totally by 2001, the which plan is in sharp contrast to the fact that DDT is highly effective. It fails in only 6 of altogether 63 anoph-

eles mosquito species, which are responsible for the transmission of malaria in tropical areas.

## Central Asia

### Oil, Gas Development Demands \$19 Price

Oil and gas development in Central Asia depends on a minimum price of \$19 a barrel for oil, according to a survey conducted by the accounting firm Arthur Andersen. The survey included executives from top Russian producers, LUKoil and Yukos, Shell Azerbaijan Exploration and Production B.V., Offshore Kazakstan International Operating Co., Pennzoil Caspian Co., Japan Azerbaijan Operating Co., and Kazakoil. Other major players in the region, such as Chevron, ExxonMobil, and BP Amoco, declined to participate.

The survey concluded that the area has even more reserves than are presently known, and the U.S. foreign policy has a significant impact on companies operating there. But to justify further development, the price of a barrel of oil has to average more than \$19 over the next year and half.

The area in and around the Caspian Sea, bordered by Kazakstan, Russia, Azerbaijan, Turkmenistan, and Iran, has about 16 billion barrels of proven oil equivalent, according to the U.S. estimates, and some estimates put that figure ten times higher. Kazakstan and Russia were rated as the most promising of the five countries for new oil finds, while Turkmenistan was rated as the most promising for new gas reserves.

The survey has endorsed the 1,580 kilometer Caspian Pipeline Consortium line. This route, of which the Russian government is the major shareholder, has been opposed by the United States. It runs from the giant Terghiz field in western Kazakstan to Russia's Black Sea port of Novorossisk, and will begin exporting oil to Western markets later this year. The United States has been a strong promoter of a more costly route that runs from Baku, Azerbaijan to Ceyhan, Turkey and bypasses Russia. The Kazak government has proposed its own pipeline to Iran through Turkmenistan.

## Eurocrats Tell Asia at ASEM: Stay on the IMF ‘Titanic’

by Kathy Wolfe

The Asia-Europe Meeting (ASEM) in Kobe, Japan, on Jan. 13-14, proved to be another chance for the International Monetary Fund (IMF) to insist on its right to run the world monetary system, even as it sinks like the *Titanic*, with its U.S. economic base collapsing. There were, however, important speeches by Chinese Finance Minister Xiang Huaicheng and Korean Finance Minister Jin Nyum, and an interesting, if weak, paper proposing a move away from the dollar standard by Japan and France.

The theme, however, was set by IMF Managing Director Horst Köhler of Germany, and the other European participants, a Japanese official told *EIR*. They were all “very friendly, not at all harsh,” like some Washington officials, he said—a polite reference to thuggish U.S. Treasury Secretary Lawrence Summers. Yet, between smiles, the message was like that of the staff of the *Titanic*, urging passengers to stay on the ship: “Anything Asian nations do is fine—if you stay within the IMF-controlled global framework.”

For many Asian leaders, who are aware that the IMF has been deliberately wrecking their economies to the profit of U.S. and European financiers, this was just more Western pressure, if in a velvet glove. Given the current renewed collapse of Asian currencies, exports, and production, such pressure is the last thing Asia needs.

The real issue on the table for the ten member-nations of the Association of Southeast Asian Nations plus China, Japan, and South Korea (ASEAN-Plus-3), is: Break with the IMF, as *EIR* Founder Lyndon LaRouche warned on Oct. 30. “Let me speak truthfully, as one warns a friend of danger,” he said. “You must break, completely, with the IMF. There can be no debate . . . to demonstrate Asia’s political will to survive” (see *EIR*, Nov. 17, 2000, p. 40).

“Unfortunately, we Asian countries are not any closer to your request that we dump the IMF as a result of this ASEM meeting,” the Japanese official told *EIR* sarcastically. “Mr.

Köhler set the tone with his friendly but firm comments that the Chiang Mai Initiative (CMI) to defend Asian currencies is fine, as long as it stays within the IMF framework. The documents have IMF everywhere. . . . The other European ministers worked closely together with Mr. Köhler, and had a similar tone about the IMF as the center of the system.”

The meeting was attended by finance ministers from ten Asian nations and the 15 European Union states, and numerous international bureaucrats.

### Asian Initiatives

Chinese Minister of Finance Xiang Huaicheng’s Jan. 14 ASEM speech on Asian Regional Cooperation reviewed the way in which the 1997 crisis spurred the creation of ASEAN-Plus-3, which at its November 2000 Singapore meeting announced plans to create a new 13-nation formal Asian organization with its own trade, financial, and industrial agreements (see *EIR*, Dec. 8, 2000).

“The financial and economic cooperation under the ‘10+3’ framework has given a spur to the progress in overall East Asian Cooperation,” Xiang said. “In November 2000, the fourth ASEAN-Plus-3 informal leaders meeting in Singapore agreed to designate two task forces to study the possibility of transforming informal meetings into summits and establishing an ASEAN-Plus-Northeast Asia Free Trade Zone. Leaders of China, South Korea, and Japan agreed to meet regularly starting in 2001. In short, thanks to the consensus and political commitment of leaders of ASEAN-Plus-3, the regional financial and economic cooperation has made steady progress.”

In “Strengthening the International Financial Architecture: Progress Assessment,” South Korean Minister of Finance and Economy Jin Nyum made a strong criticism of the delaying tactics which have prevented any meaningful change. “Most of the reforming efforts so far have not ren-



*Thirteen Asian leaders, meeting in Singapore in November 2000, began to establish a new monetary framework for the generation of credits and growth-funds for infrastructure in Asia. Here, from left: Japanese Prime Minister Yoshiro Mori, South Korean President Kim Dae-jung, and Chinese Prime Minister Zhu Rongji at the conclusion of that Singapore summit. German banker Horst Köhler (above) is now Managing Director of the IMF, replacing Michel Camdessus. The face is different, but the message to Asia was the same: Do not challenge the rule of the IMF.*

dered tangible results,” Jin stated bluntly. “The international community has lost its enthusiasm. . . . “Secondly, and perhaps more importantly, I would like to draw your attention to the fact that main dialogues for reform have been led by the G-7 countries . . . and views of emerging countries have been overlooked.” Jin pointed out, “We must remember that the recent crises are not entirely due to the vulnerability within the crisis-hit countries. . . . The shortcomings of the international financial system itself need be held accountable as well.”

As to solutions, Jin said that the hedge funds must be reined in. “There must be . . . regulatory measures to address the instability caused by speculative short-term capital flows. Here, special attention should be paid to disruptive investment of hedge funds.” He called for “direct regulations on all Highly-Leveraged Institutions, as suggested by [South Korean] President Kim Dae-Jung,” including not only hedge funds, but also major Western banks. There is “a growing tendency that speculative investment seeking short-term returns is not confined to hedge funds but is being expanded to other traditional financial institutions,” he said.

### **A Challenge to the Dollar — Almost**

A joint paper by the Japanese and French finance ministries, entitled “Exchange Rate Regimes for Emerging Market Economies,” made a proposal to dethrone the U.S. dollar as the sole currency of global reference, the first time any G-7 government has proposed this since Nixon smashed the old Bretton Woods system in 1971. “As the Asian crisis has

proved, it would be quite unsuitable to choose the U.S. dollar as the sole reference currency” for Asian markets in the future, the paper says. “Basket currency regimes including the dollar, the yen, and the euro would better suit the geographical structure of the balance of payments and would foster stability.”

The document makes an exhaustive study of why neither pegging to the dollar, as most Asian currencies were doing when the 1997 crisis hit, nor currency boards, nor today’s free-for-all float, can possibly work. Speculators today can dominate markets with “self-fulfilling prophesies which cause excessive exchange rate volatility,”

All this is true, but a basket of currencies in which all the currencies, the euro, dollar, and yen alike, are becoming more and more worthless, is about as useful as a basket of dead flowers, as LaRouche put it in his proposal “Trade Without Currency” (*EIR*, Aug. 4, 2000).

What is needed, LaRouche pointed out, is total top-down debt reorganization in each country, which must write off so much of non-performing bank loans and other bad debt, that it will require most countries to undergo an internal currency reorganization to reform their worthless currency paper. Meanwhile, he said, ASEAN-Plus-3 should create regional agreements and focus all energy on promotion of trade in real physical goods. They should, he advised, create a new unit of account based upon a basket of hard commodities, to settle the trade books.

The Franco-Japan proposal, in the end, however, is weakest, because it gives so much lip service to the power of the

IMF, that it seems to lose all backbone. Both the European regional framework, and the Asian Chiang Mai Initiative, may only function “in a way which is supportive of the IMF’s objectives and responsibilities in the global economy,” it says. Any new Asian currency arrangement should adopt the suicidal Maastricht Treaty economic shock therapy policies, because “sustainable macroeconomic policies are vital to exchange rate stability.” In general, it concludes, “regional cooperation frameworks should provide a supplementary role to existing international monetary arrangements. The IMF, as the only global monetary institution, should maintain a key role.”

### Welcome, Little Fishes

Are China, Korea, Japan, and their ASEAN allies prepared to break with this foolishness, and to defend their nations from the current renewed market attacks on their currencies? Has this meeting opened their eyes to the fact that real help will never come from the IMF? The question is open.

But there is no question that the European Maastricht bureaucracy and the ASEM organization have played the role of Lewis Carroll’s crocodile on the Nile, “who welcomes little fishes in/With gently smiling jaws.”

The IMF’s Köhler, EU president and Sweden’s Minister of Finance Bosse Ringholm, German Finance Minister Hans Eichel, numerous other European speakers, and the final communiqué, all praised the ASEAN-Plus-3 November summit and the Chiang Mai Initiative. Yet, each ended with a condition, as in item 15 of the communiqué: “The swap arrangements under the Chiang Mai Initiative . . . shall supplement existing international financing facilities including those provided by the IMF.”

“Eichel and [French Finance Minister] Fabius made it their central point to promote the euro and the good recovery they are having in Europe,” the Japanese official noted. “Of course, they’d like us to make the euro more prominent in some currency basket. They need euro support.” Eichel and Fabius gave a whole symposium on the euro in Tokyo on Jan. 15 to drum up investors. The Europeans also heavily promoted the need for free trade, insisting on a new World Trade Organization round soon.

As item 23 of the ASEM communiqué states, the group did not even endorse the Korean call for regulation of hedge funds. Korea’s Jin was repeating a resolution made unanimously by Asian finance ministers in Fukuoka, Japan last July, which Japan, for the group, brought to the G-7 Industrial Nation’s heads of state summit in Okinawa. At Okinawa, the Asian proposal was rejected out of hand by the U.S. and Britain. The ASEM communiqué simply repeats the Okinawa G-7 communiqué, that “if Highly-Leveraged Institutions continue to be a problem in future,” then regulation should be “considered,” i.e., after the damage is done. It’s clear from Fukuoka where the Asians stand; that leaves only one source for this rotten formulation.

# China Endorses Asian Economic Integration

by Mary Burdman

The Chinese government has given its full public backing to “integration among Asian economies,” not only those of East Asia—Japan, China, Korea, and the ten members of the Association of Southeast Asian Nations (ASEAN)—but also including the nations of the Indian Subcontinent. This was the essence of a speech, titled “China’s Role in Thailand’s and Asia’s Prosperity in the 21st Century,” which Chinese Finance Minister Xiang Huaicheng gave in Bangkok, Thailand on Jan. 10.

Xiang Huaicheng said that the May 2000 “Chiang Mai Initiative,” of Japan, China, South Korea, and ASEAN, was “epoch-making,” an important step toward financial cooperation among Asian countries, and “a good starting point for further integration.” At the Chiang Mai summit, the “ASEAN-Plus-3” agreed to expand financial-support agreements already established among the ASEAN nations, to include the much bigger economies of Japan, China, and South Korea, potentially creating a regional bloc, which could contribute to generating a new global financial system.

Warning that Asia is still under the threat of renewed financial crisis, Xiang said that the Chiang Mai accord “has reflected the worldwide trend of economic regionalization, demonstrating the confidence and shared desire of Asian nations to strengthen cooperation for common prosperity. . . . China, like other countries in the region, is willing to see an integration among Asian economies, which, in our opinion, should not only include Southeast Asian countries plus China, Japan, and South Korea, but the South Asian countries as well.”

Xiang Huaicheng spoke in Bangkok on the eve of the third Asia-Europe Meeting (ASEM) of finance ministers, in Kobe, Japan, on Jan. 13-14. Speaking later in Kobe, he emphasized the importance of the “strong political commitment” that the Chiang Mai accord represents, which is “creating a solid foundation and impetus for further development.”

Xiang’s proposal in Bangkok, to expand Asian economic cooperation, was made as China’s number-two leader, Li Peng, was making an historic nine-day goodwill visit to India (see accompanying article). China and India have been taking separate, but congruent, and mutually reinforcing, economic and political initiatives toward the nations of Southeast Asia in the recent period.

Both China and India, despite their own position as developing nations with many impoverished people, also have



much to offer Southeast Asia. Were the two Asian giants to further develop and expand their infrastructure, especially transport and power, toward the east and south, they could both contribute greatly to the infrastructure-poor Southeast Asia.

### **A Mammoth Effort**

Finance Minister Xiang was speaking at Bangkok Bank, the largest in Thailand. China and Thailand have had long-term close ties, economically and politically. There, he also supported the idea of developing an Asian economic community, along the lines of the European Union. Xiang emphasized the “mammoth” effort and time which would be required to create such an Asian community. Although some Asian countries have already moved toward setting up an “Asian Economic Community,” he said, there is “still a long way to go due to the diversified culture and historic backgrounds among Asian countries. . . . In some cases, problems and conflicts between some Asian countries have been deeply rooted as a historic heritage, and it is not easy to solve.”

As a first step to establish an economic community, Asian countries should reach a common view on how the future regional economic organization will be. “Secondly, we must make initial steps, which are impossible to be completed within a short period,” he said. “Even European Union countries, which have a more similar culture and history, had to go a long and difficult road to achieve economic integration.”

Xiang made clear that China, like other nations in Asia, is facing a crucial period in its economic development. With “worldwide structure adjustment intensifying rapidly, international competition is formidable. Internally, the economic recovery has yet to be consolidated, as the still-weak demand is posing a big threat,” he said. China has just announced that, despite its biggest trade volume ever, its trade surplus fell sharply, by over 17%, in 2000, due to a slowdown of exports to the United States, particularly in the final quarter. Industrial production growth has also slowed down during the past four months, although it has remained above 10% through December. With export growth expected to fall even more in 2001, Chinese leaders are emphasizing the importance of developing the huge internal market to sustain economic growth and stability. Heavy industry production expanded by 13% in December, due to the requirements for steel and other materials for the government-led internal construction program.

Xiang reiterated his concern about looming economic troubles, when he spoke at Kobe. After the 1997 phase of financial crisis swept through Asia, he said, regional leaders “realized that it is imperative for them — through coordination and cooperation — to strengthen collective capability against crises.” Now, they are meeting regularly. Not only are they agreed on the “key role of financial stability,” but they “also shared the conviction that to build a peaceful environment for economic development serves the greatest common interest

of East Asian countries,” making it again “imperative . . . to strengthen coordination and cooperation.” Xiang praised the “good momentum” of East Asian financial cooperation, and called the Chiang Mai Initiative “a good beginning for the countries in the region to enhance a financial self-help and support mechanism.”

Xiang also supported nations’ right to choose their “appropriate exchange rate regime,” on the basis of economic size, economic condition, and governmental preparedness. Developing nations, he noted, might decide on “intermediate exchange rate regimes.” However, he said, “No matter what kind of exchange rate regime an economy chooses, it should be backed by consistent domestic macro-economic policies. This is the key to ensuring the sustainability and credibility of the chosen [foreign exchange] regime.” He emphasized that although the International Monetary Fund and other “major international financial institutions may make recommendations, . . . it is up to the developing countries to make their own choices.”

### **No Survival in This System**

The serious limitations to this process, however, became clear at the Kobe meeting. East Asian cooperation has “started from the financial field,” and the current moves are being presented as very much *within* the context of the current “globalized” economy — despite the broad international recognition, that the Wall Street-dominated world financial bubble is doomed.

There is *potential* real importance to this process, including indications that consideration, led by Japan and France, is being given to the steps Western Europe took during more than 50 years of economic cooperation. European economic cooperation, especially in the first two postwar decades, rebuilt the war-destroyed continent into the greatest concentration of modern industrial capacity in the world. Japan’s Finance Minister Kiichi Miyazawa has also initiated a proposal to set up the “Kobe Research Project,” for joint research by Asia and Europe on the question of financial crises.

But the European and Asian ministers would seem to remain caught in a financial-monetary policy straitjacket, trying to figure out how to “survive” within a *disintegrating* financial and monetary system. This approach runs counter to what Lyndon LaRouche presented in his policy paper “Trade without Currency (*EIR*, Aug. 4, 2000), which addressed this exact problem. LaRouche made clear, on the basis of his uniquely proven economic method, that only by building their real economies, and through cooperation and trade in commodities essential to their national economies, will the nations of Asia be able to survive the financial meltdown, and be able to contribute to creation of a genuine New and Just World Economic Order. The diplomacy being carried out by India and China, in that it leads to the construction of the southern tier of the Eurasian Land-Bridge, could be a real step toward the “New Bretton Woods” that LaRouche envisions.

# Major Steps Taken To Bolster Chinese-Indian Relations

by Ramtanu Maitra

A high-profile nine-day visit to India by China's Chairman of the National People's Congress and former Prime Minister, Li Peng, on Jan. 9-17, has increased the momentum for developing a comprehensive and effective relationship between the two most populous nations of Asia. As the region, and the world, listened carefully to the statements issued from Beijing and New Delhi during Li's visit, it became evident that both sides are keen to advance the relationship beyond "friendly relations."

While decades of mutual mistrust, fortified by the Cold War, will not evaporate in one trip, Li said: "We hope that the statesmen of our two countries will demonstrate the courage and will to make efforts to resolve the differences. . . . We believe that problems of this kind or another, including those left over from history, should not become impediments to the growth of bilateral relations."

Li Peng's visit, although scheduled months in advance, occurred at a very interesting time. It came as a new American President was in the process of picking his team for his four-year tenure, and a pall of gloom has descended in certain quarters in the United States over the possibility of a larger contraction of the U.S. economy in coming months. Such a contraction would have a massive impact on the economies of all nations, barring a handful.

Also framing the visit was Indian Prime Minister Atal Behari Vajpayee's visit to Vietnam and Indonesia, an exhibition of a new Indian interest to integrate itself with Southeast Asia (see article in this issue). This new-found confidence of India, along with China's aggressive diplomatic initiatives over the last five years, may well set the tone for Washington's Asia policy in the coming days. It is almost a certainty that the warming of Sino-Indian relations will not be watched passively in Washington and other Western capitals; on the contrary, efforts will most likely be made to arrest the process. Further, Li's visit took place at a time of uncertainties in U.S. relations with Russia and China, a circumstance which the warming of Sino-Indian relations could complicate.

According to C. Raja Mohan, a senior Indian analyst, informed sources suggest that Beijing is no longer averse to building greater political cooperation with India and Russia.

Beijing recently informed both New Delhi and Moscow, through diplomatic channels, that it was prepared to support a detailed discussion on triangular cooperation among scholars from the three countries. Although neither New Delhi, Moscow, nor Beijing would like to project the image of that triangular cooperation as directed against the United States, all three agree on the need for a more democratic world order.

## Building Commercial and Political Ties

Li Peng was invited by the Speaker of the Indian Lok Sabha (lower house of parliament), G.C. Balayogi, and the Chinese leader came to India with a 120-member delegation. A large number of the delegates represented China's burgeoning industries and businesses. On the surface of it, the trip was designed to put in place added linkages between Chinese and Indian businesses and manufacturing facilities.

But, the trip was clearly designed to achieve more. During his meetings with Indian President K.R. Narayanan, who was once India's Ambassador to China, and External Affairs Minister Jaswant Singh, Li Peng discussed at length the unresolved and potentially volatile border issue. While both sides underscored the need to move forward the process of addressing the issue, Li Peng also asked both sides to be "patient." Nonetheless, the reading in New Delhi, is that both sides will initiate the boundary dialogue soon.

Veteran Indian columnist Shishir Gupta reported prior to Li Peng's arrival, that Li's talks in New Delhi would be aimed at promoting a better understanding between the two countries on the nuclear doctrine, a minimum nuclear deterrent, and other security-related matters. He also reported on an interview Li gave to a Chinese news agency before he left for India, in which the Chinese leader said: "I will be very much satisfied if my visit contributes in some way to its settlement." In his meeting with Prime Minister Vajpayee, both sides reportedly agreed to complete the process of clarification of the Line of Actual Control in their border region as soon as possible.

At the same time, Li Peng took pains to make clear to Indian leaders that China's relationship with Pakistan is not targeted against India, and that China has not provided nu-

FIGURE 1

### South and Southeast Asian Transportation Corridors of the Eurasian Land-Bridge



clear weapons to Pakistan. China welcomed the initiatives of India and Pakistan to engage in talks to find a solution to the Kashmir dispute, and said that Beijing “would welcome any move that helps promote and relax tensions between the two countries.”

It is evident that Li Peng’s visit was not designed to remove all the disputes and difficulties that have haunted Sino-Indian relations for decades. It is not possible to remove the

problems without putting in place concrete bases on which the new relationship can be built and allowed to flourish. As a result, the Sino-Indian border dispute, India’s support to the Tibetans, China’s support to nuclear Pakistan, China’s dumping of cheap consumer goods on the Indian market, and other such disputes, were not resolved. But, to the satisfaction of both sides, an environment has been created in which all these problems can be discussed.

## Why the Trip?

The more interesting aspect of Li Peng's trip is the timing. It is evident to China, in particular, as well to India and Russia, that an over-dependence on the Western economies, dominated by the United States, makes their domestic situation tenuous. Steady economic growth becomes impossible to sustain, and the economy becomes directed toward the export market. The downturn in the U.S. economy since last Summer, has added to the fillip in Sino-Indian relations.

In addition, as has been widely reported, Moscow has advocated lately that an economic system built around the strengths and potentials of China, India, and Russia, are substantial. A concerted effort to harness these forces can lead to an economic arrangement, which will make growth sustainable. India's recent foray into Southeast Asia indicated to both Beijing and Moscow that New Delhi has come out successfully from the doghouse, where it was dumped after it tested its nuclear weapons in 1998. Moreover, India, under Vajpayee, and even under earlier leaderships, has shown its capability to generate economic growth and move the economy forward. In other words, unlike what the Western analysts say, the warming of relations among China, India, and Russia is not a fall-out of the threat represented by the United States, but more likely because of the realization that it is a necessity, and because of the vast potential that these three countries possess.

Therefore, in the coming days, it is expected that China and India, while expediting the mechanisms which would eliminate the irritants that vex the relationship between the two countries, would forge broader economic and strategic agreements. In the international forums, such as the World Trade Organization, the International Monetary Fund and the World Bank, and the UN Security Council, India and China will be speaking with one voice, and will be pursuing policies which do not conflict with the other's interests.

This is what Li Peng meant when he said upon his arrival at the Indian port city of Mumbai (formerly Bombay), that he was in India to "enhance trust, boost friendship, and strengthen cooperation." He said, "I am looking forward to an extensive and candid exchanges of views with Indian leaders on bilateral relations and other issues of common interest."

## The Great Leap Forward

While building trust and friendship between India and China is a priority, it is also time to concentrate on a long-term relationship among the three major nations—China, India, and Russia—which bridge Far East Asia to Europe, and encompass almost 60% of the world's population. It is to be also noted that the area harbors more than 1 billion poor—or, almost 16% of the world's entire population. To begin with, the Chinese and Indian leaders must set in motion the following:

- Both China and India are nuclear-weapons states and,

at the same time, energy-starved nations. A strong partnership must be developed to build up nuclear power for peaceful use in both the countries, and in those countries in the region which suffer a similar predicament.

- It is widely understood both in Beijing and New Delhi that an over-dependency on the U.S. economy and the U.S. market has made all of Asian finance and manufacturing facilities vulnerable. That the global financial crisis which broke out in Asia in 1997 was not an accident, and that it can happen again soon, is also acknowledged in Beijing and New Delhi. However, the international monetary system, and its destructive activities, have been allowed to grow and make the financial world even more vulnerable. Both India and China dread the situation, but it is time they put forward a plan for an international monetary system, which will enable the countries to develop and people to grow.

- India is a food-surplus nation despite the fact that India's agricultural productivity, except in Punjab, Haryana, western Uttar Pradesh, and a few pockets in other states, is moderate to low. On the other hand, China, with limited arable land—about 60% of India's—has high agricultural productivity. It is almost a certainty that China will become a regular rice importer, while India will remain self-sufficient, opening the potential for rice-for-oil trade deals, in which India exports rice for China's oil. Under the circumstances, it is imperative that India and China get into something like food-for-oil long-term bilateral arrangements. India needs more bilateral oil deals.

- China has become proficient in producing consumer goods for Western countries. That means, a small segment of its industries has absorbed the technology that the West has transferred. That technology has created a small-scale sector, which is productive, but manufactures goods exclusively for the Western markets, making it highly vulnerable to the ups and downs of the Western economies. Both China and India can use this technology, and import others, to strengthen its small-scale sectors. Strengthening the small-scale sectors and manufacturing products for domestic—as well as for export—consumption can create a massive industrial base.

- In the area of water management, both India and China have a great deal of expertise. And yet, vast tracts of lands in China, as well in India, suffer from chronic drought and annual vagaries of floods. The best of both the countries can help each other in working out transfer of surplus river basin water—a formidable task only to be tried by those who have the expertise and understanding. By bringing water to China's north and northwest, and India's south and west, the growth potential for both countries would virtually double. This would also ensure equitable development in the areas where people suffer economically because of lack, or abundance, of water.

- Central Asia, after years of Bolshevik control, is now a region where exploiters and fundamentalists are planning to

ravage the weak, independent nations. The region in question, is bounded by Russia and China, and not too distant from India. By developing the manpower, through technical and basic education, and rendering the population with skills while helping them to extract oil, gas, and other natural reserves, Russia, China, and India will stabilize a highly volatile region and improve the security situation immensely.

These are a handful of areas where the two great countries, which have finally shown an interest in taking responsibility for a vast region, can make effective contributions for decades to come. To paraphrase what Li Peng told an Indian audience at a New Delhi seminar, one hopes the statesmen of these two countries will demonstrate the courage and the will to change things.

## India Prepares To Broaden Its Role In Southeast Asia

by Ramtanu Maitra

A nine-day trip by Indian Prime Minister Atal Behari Vajpayee to Vietnam and Indonesia on Jan. 7-15, for official state visits, has opened up prospects of a new level of partnership between India and the Southeast Asian nations. Looking forward to the strengthening of ties between India and the region, Vajpayee said that India recognizes “the challenges to the security of Asia stemming from terrorism, religious extremism, and subversion.”

Vajpayee’s trip took place against the backdrop of high-level meetings in India between Chinese and Indian leaders, and came less than two months following the visit of Indian External Affairs Minister Jaswant Singh to Laos. During his visit, Singh established the six-nation Mekong-Ganga Cooperation (MGC) group. The MGC will involve the member-countries in developing transport networks—in particular the “East-West Corridor” and the “Trans-Asian Highway”—under the rubric of transport and communication.

The MGC declaration also spelled out promotion of air services and rail links, as well as greater cooperation in science, technology, and human resource development. A section was also devoted to strengthening “cooperation in the development of information technology infrastructure and networks.”

### New Initiatives

While the MGC declaration centered on broader regional developmental cooperation, Prime Minister Vajpayee set

about to establish strong trade and security ties with both Vietnam and Indonesia.

In Vietnam, the Indian Prime Minister, during his stay of three days, signed three agreements with his counterpart, Phan Van Khai, on cooperation in the nuclear field. Vajpayee said, “Science and technology, including frontier sciences, are the backbone of a modernizing society, and India is pleased to assist Vietnam in this direction. I am glad cooperation in the area of peaceful uses of nuclear energy is progressing well.”

The agreement reviewed visits of a number of Vietnamese scientists to India’s atomic energy facilities, and said that “the Indian scientists would continue to cooperate with the Vietnamese Atomic Energy Commission on the technical and functional aspects of the Dalat Nuclear Research Institute” in Vietnam.

It was evident from the outset of Prime Minister Vajpayee’s visit that India is eager to develop strong economic and security ties with Vietnam. Last March, during Indian Defense Minister George Fernandes’s visit to Vietnam, India had signed an agreement to repair and overhaul Russian-made MiG-21 and MiG-29 fighters of the Vietnamese Air Force, and provide necessary training to the Vietnamese pilots. India has also agreed to set up Vietnam’s defense industry, and to work out a joint defense production agreement.

Naval cooperation between the two countries has advanced significantly. Last year, an Indian naval squadron visited Ho Chi Minh City and an agreement was signed to facilitate repair, upgrading, and building of vessels for the Vietnamese Navy. Vietnam is keen to purchase Indian-made fast patrol boats to meet its extensive maritime interests.

At the same time, India’s state-owned Oil and Natural Gas Commission-Videsh (ONGC-Videsh), which is already present in Vietnam as a part of consortium with British Petroleum and Norway’s Statoil, signed a \$238 million joint venture with Vietnam’s Petroleum Investment and Development Company. India’s naval cooperation with Vietnam has been cited by an Indian authority as a necessary step to protect India’s oil exploration operations and transportation of oil back to India.

It was also revealed during the Indian Prime Minister’s stay in Vietnam, that Hanoi is training Indian soldiers in “jungle warfare.” Vajpayee said that it is an ongoing program, designed as part of fighting the security threats that India faces in its northeast.

In Jakarta, where the founder-members of the Non-Aligned Movement met to strengthen their ties in the post-Cold War period, five agreements were signed. Again, as it became apparent in the agreements signed in Vietnam, the security and naval cooperation between the two countries took precedence over other defense matters. The two sides agreed to share their experiences in defense management and policy, exchange military instructors, assist with the mainte-

nance of each other's equipment, and conduct joint naval maneuvers. The two countries also agreed to cooperate in the fields of oceanography and hydrography. According to the defense cooperation agreement, India envisages supplying defense equipment and materials, training, and technical assistance to the Indonesian Army.

### Wider Interest

While the media highlighted the defense agreements, New Delhi was equally eager to enhance bilateral trade relations with both Vietnam and Indonesia. Calling for a massive expansion in bilateral trade with Vietnam, Prime Minister Vajpayee said that India would be ready to assist with "requisite capital," the development of transportation, telecommunications, railways, power generation plants, and water supply facilities in Vietnam. He said that Vietnam is a "critical element" in India's plan to forge stronger ties with the Association of Southeast Asian Nations (ASEAN) and in India's "Look East" policy more generally.

Prime Minister Vajpayee's trip, and the earlier trips by India's External Affairs Minister and Defense Minister, stem from a number of other Indian objectives. Following its 1998 nuclear tests—widely known as the Pokhran II—India was castigated by the Group of Seven and all Southeast Asian nations. While India continued to claim that its nuclear weapons development is not targeted against any nation in particular, India's failure to undertake economic and secur-

ity initiatives in Southeast Asia made such claims seem hollow.

Cornered by world opinion, New Delhi finally chose to work out a strategy to come out of its shell and assert itself as a responsible nation. To begin with, it became evident to the Indian policymakers that India must work out bilateral ties with petroleum-producing nations and reduce its dependency on OPEC. Since then, India has signed bilateral oil purchase agreements with Nigeria, Iraq, Indonesia, and Malaysia, and has gotten involved in oil exploration work in Iraq and Vietnam.

Reports indicate that India is also in the process of working out a bilateral oil-purchase agreement with Venezuela. India has signed a number of agreements with the Persian Gulf nations for purchase of liquefied natural gas, and is negotiating with Iran on an Iran-India gas pipeline to bring in Iranian gas to India.

A safe and assured supply of oil and gas, New Delhi believes, will be possible only if India can provide adequate security to the vessels and pipelines. It is in this context that New Delhi is actively expanding its naval capabilities. It is also expected that in the coming decade, the Indian Navy will be showing its flag not only in the Arabian Sea and the Indian Ocean, but also along the western coastal lines of the South China Sea.

In order to ensure this facility, India has unleashed the Mekong-Ganga Cooperation project. This would provide in-

## China Builds on Strong Ties to Southeast Asia

China, with long-standing ties to Thailand, Singapore, and Malaysia, has been building relations to the newer members of ASEAN, particularly Vietnam. During the past decade, China has been not only developing the upper Mekong River to open a transport gateway for its isolated southwestern region, but also taking serious measures to curb opium growing in the area and replace it with productive agriculture—both measures essential for the development of the Mekong Valley. Regional rail and energy projects are being planned.

China-Southeast Asian diplomacy is expanding rapidly. Vietnamese President Tran Duc Luong visited China on Dec. 25-29. He and Chinese President Jiang Zemin signed agreements on border demarcation for Beibu Bay, the large bay off the Vietnamese and Chinese coasts, and for all-round cooperation. The two sides some years ago opened their two rail links—the only ones existing between China and Southeast Asia—and have begun remov-

ing mines along their border, left from their 1979 clash. President Luong stated that the sea border agreement shows that Vietnam and China "are capable of resolving any problem through friendly consultation."

In November 2000, President Jiang became the first Chinese President to visit Laos, and the first Chinese head of state to go to Cambodia since 1963, an essential move of reconciliation after the Khmer Rouge holocaust. The visits promoted the idea of creating "quadrilateral" economic cooperation among China, Laos, Myanmar, and Thailand, and in the Mekong subregion, which would also include Cambodia and Vietnam.

Later, Chinese Prime Minister Zhu Rongji participated in the expanded fourth ASEAN informal summit in Singapore, on Nov. 22-27, where he proposed that China and ASEAN expand Mekong Basin infrastructure and eventually establish a free-trade relationship. He also discussed with Malaysia's Prime Minister Dr. Mahathir bin Mohamad, linking the Trans-Asia Railroad—with vital links still being planned—with China's famous Euro-Asian Continental Bridge. Indonesian President Abdurrahman Wahid recently called for strengthening relations with China.—*Mary Burdman*

FIGURE 1

**Participating Nations in 'ASEAN-Plus-3'**



infrastructure to the nations south of China and north of Thailand. India's cultural and historic relations in the area facilitate New Delhi's strengthening its ties with these nations. There is also an indication that the Mekong Basin nations, particularly Thailand, persuaded India to start the cooperative agreement. There exists now a general consensus, which did not exist at all in the post-Pokhran II days, that India has a greater role to play in Southeast Asia. A Thai official told local reporters recently that "as an emerging power in the region, India cannot be ignored by ASEAN." He said that Thailand believes that "India can play a very important role in the international community."

**The ASEAN Angle**

In Vietnam, as well in Indonesia, Prime Minister Vajpayee emphasized two other items: support for India to become a permanent member of the United Nations Security Council and to develop stronger ties with ASEAN. In Viet-

nam, the response was wholly supportive. Vietnamese Prime Minister Phan Van Khai, speaking at a banquet in honor of the Indian Premier, said that India "deserves membership on all important economic and political forums in the Southeast Asian region." In an interview endorsing the same view, Prime Minister Phan Van Khai pointed out that India's economic and trade relations with ASEAN remain modest—accounting for "less than 1% of ASEAN's total trade value." The Prime Minister said that India needed to increase its economic linkages, to increase interaction with ASEAN.

Indonesian President Abdurahman Wahid, who had visited India last year, told the Indian news daily *The Hindu*, that if India wants to eventually have a separate summit with ASEAN, its economic relations with the regional grouping must create the groundwork for such an interaction. He said, "It has to be understood that no decision in ASEAN can be taken by one side. Although I am very preferable to the idea of putting India there, but India is a part of the SAARC [South Asian Association of Regional Countries]. And the relationship between India and the SAARC should be considered. That's the point of Malaysia."

If history is any indicator, India's relations with ASEAN have improved whenever the region is at peace, and

external interference in the region was minimal. Following the Cold War, India's relations with ASEAN improved rapidly. Dialog partnership with ASEAN, membership in the Asian Regional Forum, and a number of defense-related bilateral agreements have helped to bring India under the focus of the Southeast Asian nations. But, the economic linkages have not strengthened significantly. Moreover, as President Wahid pointed out, if India wants to be a partner with ASEAN, it must vitalize the SAARC. That means, resolving India's relations with Pakistan, the second-most powerful nation in the grouping.

Prime Minister Vajpayee, nonetheless, is keen to revitalize India-Southeast Asia relations. He is scheduled to visit Kuala Lumpur on Feb. 7-10. It is evident from President Wahid's remarks that New Delhi will have to lay the foundation for a strong infrastructure and economic relationship with Southeast Asia, and Malaysia is a key element to that.

# Globalized Bank Sector Is Collapsing In Peru

by Manuel Hidalgo

Disintegration of the banking system is the characteristic feature of the systemic collapse of globalization in Peru, similar to what is ongoing in neighboring Ecuador. The wave of interventions, bankruptcies, and mergers began as a sequel to the so-called “Asia Crisis” of 1997, and has continued non-stop ever since: Last December, the NBK and Nuevo Mundo banks were intervened in after a serious bank run, and in mid-January, the deadline has been reached for determining whether they will be taken over, or shut down permanently. NBK and Nuevo Mundo thus join a long list of banks—República, Orión, Solventa, Serbanco, Banex, and Latino—which have been intervened in over the past three years, and of which only the last has been kept alive on artificial support.

In mid-1999, the takeover/rescue of Wiese Bank, second largest in the country, was carried out by the Italian consortium Sudameris. In early 1998, 25 banks made up the “national” banking system in Peru—although a large number of those were actually controlled by foreign banks. By early 2001, that total number had shrunk to 15, while foreign control had increased, given the takeover of Banco Latino by Interbank.

Delinquency in payments to the banking system shot up from 8.35% of total portfolio at the end of 1999, to 10.21% in November 2000, despite the fact that the government allowed the banks to erase their non-performing assets through accounting tricks. The shortfall in reserve assets adds up to approximately \$700 million, while bank profits have declined. In the past five months, more than \$1 billion has left the banking system, between deposits and lines of credit abroad. Standard & Poors lowered its risk classification for the Peruvian banking system, from stable to negative.

An important factor in this flight capital was the political crisis unleashed by the international financial oligarchy, as part of its strategy to overthrow President Alberto Fujimori, which they achieved in November of last year. But there is also an underlying economic and financial problem, which Fujimori did not know how to solve.

At this point, the Peruvian banks are insisting that there is liquidity in the system, but they argue that there is no one to lend to, given the dire straits of the Peruvian business sector. They have a point; there are some 1,500 medium-size and large companies which have been forced to submit to asset-restructuring programs announced by the government. Critics of these measures have said that these are resources which,

far from going toward working capital for these companies, are nothing but another covert bank rescue.

## Costs and Hidden Costs

The costs of the banking crisis are frightening: Economics Minister Javier Silva Ruete reported that the government has already spent \$1.062 billion in bank rescues over the past two and a half years. According to the data released by Silva Ruete and the Banking Superintendent, the government has had to write off between \$843 and \$937 million in this category.

In the past few months, the government had deposited its funds in the banks, as a kind of respirator to the terminally ill system. The press is now saying that the crisis of the NBK and Nuevo banks, was precipitated by a government withdrawal of its deposits. The government, hoping to avoid a new banking crisis, announced that it would issue another \$500 million in bonds to facilitate government takeovers.

1998 marked the end of the huge flood of dollars into the Peruvian economy, by means of privatization, mining megaprojects, credit lines to banks, portfolio investments in the Lima Stock Exchange, and construction of hotels and other speculative real estate investments. Desertion by the Anglo-Dutch Shell of the mammoth Camisea gas project marked the bottoming-out of the “boom” of oil and mining investments. Privatization lost its impulse because the “meat” of the Peruvian economy had already been sold off.

The profitability of the local stock exchange (in dollars) went negative by 34.8% in 2000. Direct Foreign Investment in the third quarter of 2000 was \$16 million, compared to \$579 million during the same period in 1999, and \$299 million for the corresponding period of 1998.

All of these are but aspects of the international financial collapse, which drove the dollar flow back to the metropolis, the so-called “flight to quality.” All of this was aggravated, of course, by the financial warfare run against Peru as part of the “get Fujimori” campaign in 2000.

The arrangement that globalism imposed on Peru in 1990, to cover some of its own shortfall in production with foreign products, in exchange for handing over its leading state companies at bargain-basement prices while surrendering control over national savings via bank de-nationalization, is now running out of steam. Although that arrangement relied on 1) a vast cushion of dollars from the drug trade, 2) a social escape valve of mass migration abroad (with the consequent remittances to families back in Peru), and 3) a boom of mining exports, which more than doubled between 1990 and 2000, Peru today suffers from a business, banking, and fiscal crisis.

As of 1998, the Fujimori government tried to counteract the collapse in foreign exchange earnings by drastically reducing the consumption of the population. A devaluation was avoided, but at the cost of triggering a profound recession in the domestic economy, which has not revived despite the later “dynamism” of exports controlled by foreign cartels in Peru, such as Newmont, Barrick Gold, and BHP.



# Chiluba's U-Turn Is Last Chance for Zambia

by Lydia Cherry

Following a state visit to Tokyo the first week of December, Zambian President Frederick Chiluba has taken steps to regain control of economic policy-making for that beleaguered country. While in Japan, Chiluba had held several private meetings with Prime Minister Yoshiro Mori and other Japanese officials. Japan pledged \$15 million to build a public health institute and schools. Nothing has been made public about the content of the talks, but beginning Dec. 19, Chiluba began issuing economic directives. He tightened foreign exchange measures and stated he was not going to go ahead with the privatization of strategic companies; he noted that in the last few years over 90% of the country's companies have already been privatized, but that Zambian citizens had received no benefits from this.

The President was immediately seconded by the Federation of Free Trade Unions of Zambia.

The IMF and "donor community" have had Zambia in a state of siege since even before Chiluba came into power in October 1991. As a result, Zambia is now a country that doesn't have much time. Life expectancy has dropped to 33 years. It has one of the highest under-five child mortality rates in the world, with 59% of children of this age group suffering from chronic malnutrition. The loudly heralded "debt relief" for Zambia under the classification of Highly Indebted Poor Countries (HIPC) will not be felt until at least 2006-15; until then, the country must pay \$174 million yearly, which is more than it paid in 2000 *before* the "debt relief" was granted. Zambia's currency, the kwacha, lost a full 60% of its value from January-December 2000.

On Dec. 19, Chiluba directed foreign investors in Zambia to ensure that they leave at least 75% of their earnings in the country. The President said his government is concerned about the rapid devaluation of the kwacha.

## Exchange Controls Imposed

This was followed by a press briefing by Bank of Zambia Governor Jacob Mwanza the following day; and an immediate regulation on Jan. 18, enforcing the kwacha as the legal tender, and that all except tourist transactions in Zambia must be conducted in kwacha and not the U.S. dollar. At the briefing, commercial banks were informed that they will now be required to keep 11% of their kwacha and foreign currency earnings in the country—an increase from 8%.

On Jan. 11, President Chiluba held a meeting with busi-

ness officials in Lusaka, attended by executives from the mines, parastatal and transport companies, banks, department stores, and travel and tourism sectors. The President warned the gathering that his government would be obliged to enact appropriate laws if they fail to halt the falling value of the country's currency. He accused business houses of stifling the economy simply because Zambia now lacks exchange controls. He said that the currency's depreciation was due to capital flight—the failure by the business community to fully return the proceeds from exports, including copper and cobalt.

Continuing to up the ante, on Jan. 13, Chiluba announced that his government would maintain all remaining strategic companies, and would not privatize them despite demands by the donor community, including the World Bank, to do so. Chiluba also said that he would contest the sale of the Zambia Electricity Supply Corporation Ltd., Zambia National Commercial Bank, Indeni Oil Refinery, Zambia National Oil Company, Tanzania-Zambia Railways Authority, and Zambia Telecommunications Company Ltd. He insisted that these firms were critical to the security of the country. Making this announcement in the northern copper-mining town of Ndola, Chiluba called on trade unions and the Ministry of Labor to join in the battle, and said that there was no country in the world which did not control commercial utilities.

## 'The Kwacha Is Bleeding'

Chiluba accused foreign investors of manipulating the local currency. "We cannot leave everything to foreign investors. If the United States of America intervenes in the running of the country's economy, who are we not to intervene?" he asked, according to Panafrican News Agency. "Zambia should not be forced to sell off state-owned companies, when Britain started privatizing its firms in 1945 . . . and yet it still owns some commercial utilities."

Chiluba said that he had information that some new investors, including those in the mining sector, had opened other branches in West Africa with funds generated from Zambian investments. "The kwacha is bleeding. . . . I will consult the cabinet so that a law is passed in Parliament to stabilize the kwacha, or [I'll] go it alone to do so," he said.

The *Post of Zambia* on Jan. 16, quoted the president of a group, Agenda for Zambia, commending Chiluba's U-turn as an admission that the economic policies of total surrender to the dictates of debt collectors had completely failed. The spokesman, Akashambatwa Mbiku, however, noted that for President Chiluba to have a chance of winning this war, he must get rid of pro-IMF officials in key economic places such as the Bank of Zambia and the Ministry of Finance.

President Chiluba, along with other Southern African leaders, has attended several "Smart Dialogue" sessions since 1999 keynoted by Malaysian Prime Minister Mahathir bin Mohamad. In these, Dr. Mahathir stressed South-South cooperation, and he shared Malaysia's experience in taking back control of its own economy from the "donor community."

# 'Bush Lobby' Plots New Provocations in London

by Mark Burdman

Provoking a new era of tensions between the United States and Western Europe, Russia, and China, and unleashing war crises in the Middle East-Persian Gulf region, were the focal points at a meeting of some 60 American and British strategists, government officials (current and former), political leaders, lawmakers, bankers, and journalists, on Jan. 12-13, at London's Four Seasons Hotel. The event, entitled "Britain and America: A Strategic Dialogue," was co-sponsored by the Washington-based American Enterprise Institute (AEI) and New Atlantic Initiative (NAI), and the London *Daily Telegraph*. The *Telegraph* is owned by the Toronto-based Hollinger Corp., whose chief executive, Canadian Conrad Black, is an intimate of the two main founders of the NAI, Baroness Margaret Thatcher and Henry Kissinger.

What lends importance to the London event, is the fact that the AEI-NAI mob is, in many respects, synonymous with the George W. Bush Administration. Vice President Richard Cheney is one of AEI's 26 trustees, while his wife Lynne is one of AEI's "scholars." Another AEI "scholar" is Lawrence Lindsey, the former U.S. Federal Reserve official who is now Bush's chief economic adviser, and who will be playing a special role, in attempting to "manage" the growing financial and economic turbulence, from a newly created position on the Bush National Security Council. Bush Defense Secretary-designee Donald Rumsfeld and U.S. Special Trade Representative-designee Robert Zoellick are members of the NAI Advisory Board. Paul Wolfowitz, appointed by Bush to the number-two Defense Department post, is a top figure in both the AEI and NAI.

The supremacy of AEI within the Bush Administration, was heralded in a Jan. 3 news article in the *Telegraph*.

AEI is the home base for a wide range of neo-conservative leading lights, including ideological guru Irving Kristol; Iran-Contra insider Michael Ledeen; former Defense Department senior official Richard Perle, whose war-mongering lunacies have earned him the nickname, the "Prince of Darkness"; and free-market fanatic Michael Novak, who purveys the policies of British East India Co. propagandist Adam Smith in an ostensibly "Roman Catholic" context. AEI shares with the Heritage Foundation, the role of the leading mouthpiece for the ultra-free-market Mont Pelerin Society, and many of its activities and projects overlap those of Heritage. It is also

close to the "Ariel Sharon Lobby" among extremist Zionist organizations in the United States.

NAI was created in 1996, primarily by Thatcher, with the aim of countering diplomatic, economic, and strategic moves toward the Lyndon LaRouche-backed Eurasian Land-Bridge project. Among its central projects, has been the immediate, and large-scale expansion of NATO, to include the Baltic nations, and others. Entitled the "Big Bang" approach, this was enunciated at an NAI conference in Slovakia, in May 2000, by Dame Pauline Neville-Jones, formerly a senior figure in the British Foreign Office, who had been promoted to her post by Thatcher, when the latter was Prime Minister (see "Bush-British Loonies Plot New Confrontation," *EIR*, May 12, 2000). Dame Pauline, now a governor of the British Broadcasting Corp., was an attendee at the Jan. 12-13 gathering.

## Ghost of Teddy Roosevelt

One individual widely touted to be on the list for a senior Bush Administration appointment, is NAI Executive Director Jeffrey Gedmin, who runs the NAI out of his office as a "resident scholar" at the AEI. One day before the Four Seasons meeting began, on Jan. 11, Gedmin authored the lead commentary for Black's *Telegraph*, which was an unambiguous message, indicating what Europe can expect from Bush and Company. Gedmin's commentary, entitled "President Bush to Europe: It's No More Mr. Nice Guy," was distributed to all the attendees at the conference.

Gedmin began by denouncing European countries, particularly France and Germany, for their recent harsh attacks on the practice of the death penalty in the United States. This was a kind of declaration of war from the Bush team, because Bush himself, as Governor of Texas, has been the Chief Executioner in the United States, during recent years.

Gedmin insisted that these European protests are part of a growing "anti-Americanism" and a "relentless campaign by certain Europeans against the Americans," as well as "a new Euro-Gaullist spirit," all of which were supposedly fostered by the "nice guy" approach to Europe adopted by Bill Clinton, during his eight years as U.S. President.

But now, all of this is over and done with. The Bush crowd may drop the shrill "hectoring" of outgoing Secretary of State Madeleine Albright, Gedmin noted, but, in substance, the policy toward Europe will be vastly tougher. He warned that Bush "is likely to invoke [early-20th-Century Anglophile President] Teddy Roosevelt's famous dictum, even with our closest partners: speak softly and carry a big stick."

In case that weren't clear enough, the words "speak softly and carry a big stick," were emphasized, in a bold-faced subtitle accompanying the article. Teddy Roosevelt is the hero of George W.'s father, Sir George, who invoked the Teddy Roosevelt precedent, in his brutal misadventures against Panama and Iraq.

Gedmin affirmed, that the U.S.-European relationship



*Former President Sir George Bush and British former Prime Minister Thatcher. A return to a confrontationalist U.S. foreign policy, under current conditions of collapse of the IMF financial system, will make the world a far more dangerous place than it was under the lunacies of Thatcher and former President Bush.*

will change, and Europe will learn the appropriate lessons, as a result of such Bush policies as National Missile Defense (NMD) and rapid NATO expansion. He lavishly praised Donald Rumsfeld, who headed the 1998 commission pushing missile defense, and who understands the “new strategic environment,” perhaps more than anyone else in the Bush team. (For *EIR*’s evaluation of NMD, see Lyndon H. LaRouche, Jr., “On the Subject of Missile-Defense: When Andropov Played Hamlet,” *EIR*, April 21, 2000; Jonathan Tennenbaum, “Theater, National Missile Defense: Revolution, or Bluff?,” *EIR*, Sept. 3, 1999.)

### **Hague Jumps on Board**

The next day, an important aspect of the Gedmin line was echoed in the Jan. 12 conference keynote speech by William Hague, leader of Britain’s main Opposition Conservative Party, a.k.a. the Tories. Hague enthusiastically endorsed the U.S. NMD program.

Hague warned that the world is now in “the second nuclear age,” with the greatest threat coming from “rogue states. . . . For these states, ballistic missiles and weapons of mass destruction constitute the ideal weapons of terror.” He said, “I welcome the appointment of Donald Rumsfeld, who has done more than anyone to heighten public awareness of missile proliferation, as Secretary of Defense. It is a clear signal, of the importance that the President-elect attaches to early deployment.”

Hague roundly criticized the reservations over NMD, held by the Tony Blair government in Britain, and moaned that “the same is also sadly true of political opinion in other European capitals.” He insisted that “Britain should cooperate with the United States, to the best of our ability, as it develops and builds its weapons shield,” and warned that, if Britain holds back full cooperation in developing the NMD, by failing to upgrade the early warning system at Fylingdales in the U.K., “the relationship between Britain and America will have suffered a most serious blow.”

Hague was backed by conference attendee Bruce Jackson, from the U.S. Jackson works at the Lockheed-Martin defense/aerospace firm, who is a key figure in an organization called the U.S. Committee on NATO. He was, reportedly, the chief author of the foreign policy planks of

the Republican Party’s Presidential platform, which were filled with provocative ravings against Russia and China. At the time the platform was written in Summer 2000, both its foreign policy points, and Jackson himself, were praised by the *Daily Telegraph*.

The view is being put out by AEI, the Heritage Foundation, and neo-cons generally, that, with Bush’s “election” in the United States, Hague will be Britain’s next Prime Minister, following general elections that are expected for April or May of this year.

Hague’s shadow Defense Secretary, Iain Duncan-Smith, and Foreign Secretary, Francis Maude, will soon be travelling to the United States, to try to “fix up” the Tories, rather than Blair’s Labour Party, as the Bush Administration’s “special relationship” link in the U.K. Duncan-Smith, who attended the Four Seasons conference, has been spewing forth violent polemics against European defense policies, along the lines of the cited Gedmin piece. According to a highly informed source, himself a regular attendee at NAI events, but who has a more moderate view toward Europe, Duncan-Smith and others have been receiving backing from AEI-NAI and the Heritage Foundation.

### **‘A Proper Jingoist in the White House’**

Further lunacy emanating from the London gathering, flowed from the pen of conference attendee Michael Gove, a regular columnist for the Rupert Murdoch-owned London

*Times*. Under the headline, “We Must Fight the Good Fight for Jingoism,” Gove welcomed the incoming Bush team’s policies, as representing the return to the heyday of the British Empire in the 19th Century.

Gove began: “It’s time for a revival of jingoism. Ten years after the mother of all battles began, with the godfather of terror, President Saddam Hussein still repugnantly in place, and the rising son, George W. Bush, at last restoring virtue to the White House, the moment is ripe for a restoration of this grand Victorian principle.”

He attacked “the new peaceniks,” from both the “left” and the “right,” who are effectively acting as “Saddam’s stooges in attacking Iraqi sanctions,” and who are showing “blindness to the resurgent imperial ambitions of Russia and China.” According to Gove, this is now being countered by the “jingoistic” push by Bush and Hague, for national missile defense, and related policies.

Gove further raved, that “the case for robust action to deal with Saddam, and other rogue states, such as North Korea and Libya, is overwhelming.” He favorably cited the new book by former “United Nations Iraq weapons inspector” Richard Butler, *Saddam Defiant*, which ostensibly shows that “the order of threat posed by the Iraqi dictator, and his playmates, is huge.” Butler, now with the New York Council on Foreign

Relations, was a featured guest at the AEI-NAI-*Telegraph* gathering, and reportedly received a very enthusiastic reception.

Gove claimed that the old notion of “mutually assured destruction” can not work with Saddam-type “dictators.” Instead, there must be an NMD “shield. . . . A willingness to cross swords, with the most lethal force available, must be shown.” He concluded: “It is a mercy we have a proper jingoist in the White House. He’s got the ships and he’s got the men. But he needs a proper ally or two.”

### From the Treasury’s Balls

According to one participant at the gathering, beyond the discussions supporting the NMD and immediate NATO expansion to the Baltic states, there was a considerable amount of crisis-mongering respecting the Middle East and Persian Gulf. That the event took place only days before the Jan. 17 tenth anniversary of the 1991 Gulf War against Iraq, meant that Butler’s anti-Iraq ravings received full backing, as per the above Gove article. Also, the Ariel Sharon pro-war policy for the Israeli-Palestinian front was backed by such speakers as Dean Godson, an editorial writer for the *Telegraph*. Godson is the brother of Roy Godson, one of the most bitter and persistent enemies of LaRouche in the United States, who is a fixture in the neo-con, Anglophile intelligence circuit in Washington. Roy Godson was a prominent player, in the Sir George Bush-coordinated Iran-Contra operations of the 1980s.

According to the same participant, substantive discussion on the global economic crisis was aborted, by the intervention of the strangely named Ed Balls, the senior adviser to Chancellor of the Exchequer Gordon Brown at the British Treasury. Balls and other top Brits are trying to suppress such discussion, this source claimed, in the period leading up to the British general elections in the Spring, out of the same motivations that led the Anglo-American Establishment to suppress discussion of the financial/economic crisis by the two “leading” candidates, during last year’s U.S. Presidential campaign.

Other British attendees at the Four Seasons event included shadow Chancellor of the Exchequer Michael Portillo; British Cabinet Office senior figure Robert Cooper, Prime Minister Tony Blair’s foreign policy guru; former Defense Secretary Lord John Gilbert; *Telegraph* editor Charles Moore; a number of representatives of other British newspapers and City of London investment banks; and a handful of British parliamentarians.

Other American attendees included former CIA head James Woolsey; Peter Rodman of the Nixon Center; several individuals from AEI, including London *Sunday Times* economic columnist Irwin Stelzer and Charles Murray, the notorious author of the racist “Bell Curve” theory that is so popular in neo-con circles; and journalists from the *New Republic*, *New Yorker*, and *US News & World Report*.

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## The Bell Tolls for Joschka Fischer

*Revelations about the Foreign Minister's anarchist past are feeding a broader crisis of confidence.*

On Jan. 16, German Foreign Minister Joschka Fischer made his long-awaited appearance at a Frankfurt trial on terrorism. He had arranged not to testify under oath, but to give a background briefing on the period of the late 1960s and early 1970s, when he and Hans Joachim Klein, the former terrorist on trial, were close friends in the Frankfurt underground. Klein and another former terrorist, Rudolf Schindler, are on trial for their role in the 1975 hostage-taking at the Vienna OPEC summit, which caused three deaths. The plan to take the assembled OPEC oil ministers hostage was carried out under the command of the infamous "Carlos the Jackal."

Fischer is not among those accused, but recent revelations have it that he played an active role in the promotion of street violence, in Frankfurt. Most of the revelations contain nothing new for insiders, but a series of pictures showing him and several others beating up a lone policeman in 1973, was quite a shock for the nation, when published on Jan. 6 by the weekly magazine *Stern*. The last time those pictures were published, was in April 1973, immediately after street riots in Frankfurt, during which this incident occurred. The attackers in those pictures had not been identified then, but now they are revealed to be Fischer and Klein. More pictures, and interviews with people who recall those events, have been published, during the last two weeks.

Fischer's initial response was to concede that he was in the Frankfurt violence-prone underground, but stressing that he has changed his atti-

tudes. This has backfired, however, because the whole debate brings back to public consciousness how Fischer's Green Party made it into parliaments and governments, in the 1980s. They used intimidation, psycho-terror on the environmental issue, and real terror against nuclear power projects and the policemen protecting those sites. All the ugly scenes of confrontation between policemen and violent protesters are back in print and on prime-time on television. And this is not at all a thing of the past: Even today, Green activists cut railroad tracks to block nuclear fuel transports, attack policemen, set vehicles of nuclear power producers on fire, cut overland power lines, and blockade roads. The intensity of violence is not equal to the 1980s, but the violence is still there.

To those Germans who can look through the pro-environmentalist coverage that usually dominates the media, the revelations about Fischer bring back to mind that major industrial and infrastructure projects can no longer be carried out in the Germany of today, under the impact of legal and political concessions made by gutless politicians to the Greens. A pact between Greens and budget-balancers killed the planned first project for a fully commercial maglev train between Hamburg and Berlin, Germany's two biggest cities. Airbus Industries cannot expand its production site in Hamburg, which is an urgent project, because of environmentalist worries about fish and frogs in the Elbe River. And the high-speed railroad between Cologne and Frankfurt, which is crucial for the establishment of an

east-west modern rail connection across the middle of Germany, has been delayed by ten years, because of environmentalist objections.

Twenty years ago, street violence was required to force concessions to the Green cause, but today, the courts almost automatically rule in favor of ecologist arguments, or in favor of courtroom deals which allow the ecologists to prevail.

But the Greenie Revolution that has changed Germany for the worse over the last 25-30 years, is not uncontested in the population: Costly projects like the ecology tax, which the Socialist-Green coalition government introduced when it took power after the national elections of September 1998; deep fiscal cuts in the social welfare, labor and pension budgets; and tax cuts for the banks and investment funds, at the expense of the producing industry, have enraged German citizens. The Green party would not be re-elected into the national legislature, again, and it has been voted out of numerous regional and local legislatures since 1998. Radical ecologism is broadly opposed by Germans, and this was underlined, when thousands of farmers took to the streets in January in protest of the government's plans to misuse the crisis over "Mad Cow" disease, for the transformation of farming into ecology-farming.

The discontent among Germans with their "red-green" government has now been given a name: Joschka Fischer. And since, as Vice Chancellor, he is the number-two person in the government, the entire government is in deep trouble. It is generally expected that if the crisis of confidence deepens, Fischer will be forced out of office, soon, either by new revelations, or by an emergency decision by Chancellor Gerhard Schröder to dismiss him, in order to save his own neck.

# International Intelligence

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## ***Thousands of Refugees Flee War in Guinea***

The UN High Command for Refugees began preparations on Jan. 2 for a new transit site in south-central Guinea for up to 60,000 refugees who have fled camps in the strife-ridden Gueckedou region. The border camps were inhabited by tens of thousands of refugees from neighboring Liberia and Sierra Leone, but the region came under attack beginning in early December. Their fate is currently unknown, UNHCR claims. The agency earlier pulled out from this area after its office was burned.

However, on Jan. 3, in a major policy change, the UNHCR has decided to help Sierra Leonean refugees leave war-torn Guinea for their war-torn home in Sierra Leone.

The head of the UN peacekeeping force in Sierra Leone, Lt. Gen. Daniel Opande, flew to rebel-held areas, to urge them to withdraw from conflicts in Guinea and Liberia, and also discussed prospects for deploying peacekeepers in rebel-held areas of Sierra Leone, under the terms of the current cease-fire. One report quoted a UN spokesman as saying the terrorist Revolutionary United Front has agreed to open up three roads into its territory to help with the deployment.

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## ***Lockerbie Defense Puts Blame on Syria's PFLP-GC***

Closing statements were being made in mid-January, in the trial of two Libyans, charged with the Dec. 21, 1988 bombing of Pan Am Flight 103, which killed all 259 people on board the jet and 11 on the ground in Lockerbie, Scotland. The three-judge panel of Scottish judges is expected to rule late in the month. In his closing argument on Jan. 12, defense attorney William Taylor tore holes in the prosecution case, and presented an alternative account of the bombing, in which the Damascus-based Popular Front for the Liberation of Palestine-General Command (PFLP-GC) carried out the bombing of the New York-bound flight, which originated in

Frankfurt, Germany.

Taylor presented evidence that a plane from Damascus had arrived at Frankfurt Airport at nearly the exact same moment that the Air Malta flight arrived, the latter allegedly carrying the Libyan bombers. German police, he continued, had broken up a PFLP-GC cell in the Frankfurt area, which possessed bomb-making equipment and details about Pan American flights. The manufacturer of the timers used in the Lockerbie bomb had testified that his company had sold the same timers to Libya and to the East German secret police, the Stasi, which had, in turn, provided weapons and bomb-making components to the PFLP-GC.

The "Libyan connection" to the Lockerbie bombing was suddenly discovered in the Summer of 1991, when Syria was the "prodigal son" in the so-called Gulf War alliance, cobbled together by President Sir George Bush and British Prime Minister Maggie Thatcher against Iraq. Should the Scottish judges rule that the Libyans are not guilty, it would make for quite a welcome to George W. Bush and the Bush-leaguers as they move into the White House on Jan. 20.

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## ***Are African AIDS and Cholera Epidemics Linked?***

The World Health Organization (WHO) will investigate whether there is a connection between the cholera epidemic raging in South Africa's KwaZulu-Natal, where more than 17,000 people have become ill, and the HIV-AIDS epidemic devastating Africa. According to a Jan. 1 report from *News 24*, a WHO epidemiologist will spend the next six months in the province, investigating the links, among other things.

The cholera epidemic erupted in Empangeni on the North Coast, and research has found that along the KwaZulu-Natal North Coast, about one-third of new mothers who visit post-natal clinics are testing HIV positive. WHO's regional chief, Dr. Welile Shasha, noted that cholera and AIDS are both diseases of poverty, after researcher Julia Frielinghaus mooted a connection between the outbreaks of the two diseases.

The cholera epidemic has now spread to

Zambia, Malawi, Swaziland, Mozambique, and Tanzania. In Malawi's capital Blantyre, City Medical Services Director Lycester Bandawe said on Jan. 8, "We are currently treating roughly 40 suspected cholera cases in the Queen Elizabeth Central Hospital in Blantyre, after flooding on the Shire River two weeks ago." Malawi's National Statistical Office warned that 22%, or 2 million of Malawi's 9 million people have no access to proper sanitation or sewerage systems.

In KwaZulu-Natal, the extent of cholera infection is so high, that rehydration centers are hard put to deal with the volume of people streaming in. In Mozambique at least 50 people have already died of cholera.

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## ***Bavaria's Stoiber Gets Red Carpet in France***

Bavarian Gov. Edmund Stoiber, the leading contender to run for German Chancellor on the Christian Democratic ticket, was welcomed in Paris on Jan. 11 by President Jacques Chirac, who, like Stoiber, is a conservative.

Stoiber discussed the future shape of the European Union with Chirac, and also with other French officials, Socialists in France's co-habitation government: Foreign Minister Hubert Védrine, European Affairs Minister Pierre Moscovici, and Cultural Affairs Minister Jack Lang. Stoiber made the point, welcomed by his French hosts, that as the EU continues to integrate, the more important it will be, to strengthen the responsibilities of the nation-state. A clear division of labor between the supranational and the national levels will be urgent, Stoiber said. Any other approach would be counterproductive and cannot win the approval of the EU citizens, who are all citizens of nations.

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## ***Bush League Meddling In Israeli Elections***

Israeli Health Minister Roni Milo announced on Jan. 11 that he would resign from the government of Prime Minister Ehud Barak, because of Barak's policy on dividing Jerusalem and the Temple Mount

**LAURENT KABILA**, President of the Democratic Republic of the Congo, was shot to death on Jan. 16, apparently by a bodyguard, during a meeting with his military staff. Coup rumors had abounded, prompting him to cancel his attendance at a meeting of African French-speaking countries, at which the Rwanda-Uganda war against Congo was to be discussed. Only a week earlier, Uganda and Rwanda had sponsored a powwow of Congolese “rebel” groups in Kampala, Uganda.

A “**NEW OPIUM WAR** against China,” was how the International Commission on Large Dams referred to the international campaign against China’s construction of the Three Gorges Dam. The ICOLD was established in 1928, and has now 80 member-nations. Its website includes a link to the Fall 2000 cover story of *21st Century Science & Technology*, “Three Gorges Dam: TVA on the Yangtze.”

**SUDAN’S** international isolation is breaking up as several important visitors have made their way to Khartoum. Algerian President Abdelaziz Bouteflika visited for three days over the New Year, the first Algerian head of state to visit Sudan in 30 years. Turkish Foreign Minister Ismail Jimm arrived on Jan. 9 for a two-day visit, and Egyptian Foreign Minister Amr Moussa came on Jan. 8 carrying a message from President Hosni Mubarak.

**MYANMAR’S** government opened talks with opposition leader Aung San Suu Kyi, as the result of visits by UN special envoy Razali Ismail, of Malaysia. “There have been talks between Aung San Suu Kyi and the Myanmar government which started towards the end of last year,” he said.

**AUSTRALIA** is experiencing an explosion in gambling losses: In the state of Victoria alone, one in four people gambles heavily. In the past 15 months, Victorian gamblers have lost more than \$2.6 billion, compared to \$11 billion total lost since 1992.

with the Palestinians. It is not surprising that Milo resigned: He is a former member of the right-wing Likud who joined the Center Party, which is a mix of former Likud and Labor Party members. What is surprising, is that he made the announcement at a New York City press conference, flanked by Republican Mayor Rudolph Giuliani; Bush campaign funder Ron Lauder, the chairman of the Conference of Presidents of Major American Jewish Organizations, and a major funder of the Likud campaigns of former Prime Minister Benjamin Netanyahu and current candidate Ariel Sharon; Jerusalem Mayor Ehud Olmert; Natan Sharansky, leader of the Yisrael B’aliya Party; and Uzi Landau, a Likud member of the Israeli Knesset (parliament).

The press conference had been called to announce that participants were signing a letter calling on President Bill Clinton to sign an Executive Order to have the U.S. Embassy moved from Tel Aviv to Jerusalem. The issue, a favorite hobby horse of the Bush league, would strip the United States of any credibility in peace negotiations.

Milo’s resignation puts pressure on other Center Party rightists in the cabinet to withdraw, including Dan Meridor, who is a leading political figure in Israel. The other members of the Center Party are firmly in the peace camp, such as Uri Savir, one of the framers of the Oslo Accords, and Tourism Minister Lipkan Shahak, who has been acting as a peace negotiator.

## ***Hun Sen: Khmer Rouge Trials Must Be Limited***

Cambodian Prime Minister Hun Sen, citing the case of Ieng Sary, insisted that, for the good of the country, trials of former Khmer Rouge leaders must be limited. In an interview with the Jan. 10 issue of the *Bangkok Post*, he said bluntly that “if Ieng Sary is brought to trial, there will be war again in Cambodia. This is a warning, Ieng Sary is the one who brought peace to our country.”

His statements were published one week after the National Assembly ratified the draft law, authorizing the creation of the “mixed tribunal,” which Cambodia has painstakingly

negotiated with the UN (see *EIR*, Dec. 24, 1999). The bill was to go to the Senate for approval the next week, and must be approved by the Constitutional Council and King Norodom Sihanouk. Hun Sen said the tribunal could convene this year. The agreement with the UN explicitly states that only “senior” Khmer Rouge officials will be prosecuted.

Ieng Sary, who was de facto Foreign Minister of the Khmer Rouge regime, from April 1975 to January 1979, led a mass defection of KR soldiers to the government in 1996, which began the disintegration of the Khmer Rouge.

## ***French Think-Tankers Praise ASEAN-Plus-3***

France’s International Institute for Strategic Studies (IFRI) held a seminar of 200 people in Paris on Jan. 11, to discuss “new” Asian perspectives. Speakers included Sinologist François Godémont (IFRI); Romain Bertrand from the Center for Analysis and Forecasting of the Foreign Ministry; former Economics and Finance Minister Christian Sautter, now teaching at the Higher School in Social Studies; IFRI’s President Thierry de Montbrial; and Vice President Pierre Jaquet.

A recurrent theme in the seminar was the success achieved by Malaysia’s Prime Minister Mahathir bin Mohamad, whose nation was the only one to show real growth after the so-called “Asian crisis” of 1997-98, because Mahathir had bucked the International Monetary Fund’s free-market dictates, and had slapped on exchange controls.

Christian Sautter was especially emphatic that what became the ASEAN-Plus-3—the Association of Southeast Asian Nations plus China, Japan, and South Korea—had originally been Mahathir’s idea, but was sabotaged by the United States.

Another speaker privately told this news service, that he thinks these reforms can only work if they lead to a reform of the global financial and monetary system. He agreed that such developments could provide leverage toward such a new system, which France and the European Union should support.

## Jean Sylvain Bailly: The French Revolution's Benjamin Franklin

by Pierre Beaudry

*Editor's Note:* We publish here an unusual study, of the work of a man who was: founding president of the revolutionary National Assembly of France, when it was first formed in 1789; the first republican mayor of Paris, at the same time; the first organizer of the Paris Guard, later the French National Guard of Gen. Marquis de Lafayette; an astronomer and extraordinary Leibnizian historian of astronomy, the first man to be elected member of both French national academies of science; and a man who, although the Benjamin Franklin of the French Revolution, is today almost completely unknown! Focussing on Jean-Sylvain Bailly, researcher Pierre Beaudry has written what Lyndon LaRouche has called "one of the best-researched reviews of the crucial developments of the June-July 1789 turning point and their immediate aftermath."

So false are the British-dominated historical sciences, that the case of Jean-Sylvain Bailly is only one of a number in the history of Europe alone, in which real "Founding Fathers" of sovereign nation-states have become virtually unheard-of, even in their own nations. (The Republic of Ireland's first President, Arthur Griffith, is another notable example.) The more durable fame of George Washington and Benjamin Franklin is a sign: They *defeated* the British Empire, and so for a time, its historians. During the 20th Century of the so-called "special relationship" between irreconcilable enemies—the U.S.A. and the British Empire—British-inspired historians have sought revenge by seeking to destroy the true importance of Washington, Franklin, Hamilton, and Lincoln for the entire human race. The case of Jean-Sylvain Bailly is a warning of the crucial importance of studies such as this, if we are to regain the true history of the republican nation-state, and not allow its destruction

in a new, "globalized" world empire.

Bailly's and France's British-Swiss adversary of the Summer of 1789, Finance Minister Jacques Necker, is by contrast quite celebrated. The famous storming of the Bastille on July 14, now France's national holiday, was done for the demand of *restoring Necker* to control of the royal government. And the provocation which began it—the slaughtering of people in the streets by cannons firing from the Bastille fortress—was a planned counter-revolutionary move in a "coup" in which Necker was deeply involved.

Necker was the Alan Greenspan of Louis XVI's last royal governments. In the aftermath of the notable French military and financial support for the American War of Independence against Britain, a tragedy had occurred. France, in the 1783 Treaty of Paris recognizing American independence, agreed to free-trade provisions demanded by Britain for its control of the Atlantic trade. Then, in a separate 1786 French-British treaty, France accepted suicidal, complete free-trade agreements which ruined the French economy overnight. From 2% annual real physical growth in the late 1770s and early 1780s, France's textile, shipping, and mining sectors, and its agriculture, fell into depression, with outright famines ensuing. The royal budgets collapsed, and in stepped the Swiss agent of Britain's Lord Shelburne, the banker Jacques Necker, as French Finance Minister and First Minister.

Necker, through his banking circles in Geneva and London, brought in huge international loans to fund the French royal budgets from 1787 on, while subjecting the royal treasury to "transparency" and austerity with his famous *Compte Rendu*. It was just as with International Monetary Fund (IMF) "assistance packages" to nations today. In short order,





*The Tennis Court Oath of June 20, 1789 was the most solemn moment of the French Revolution, in which the National Assembly, led by Bailly, demonstrated its sovereignty, striking a powerful blow against the British and their agent, Finance Minister Jacques Necker. Imitating the American Framers at the Constitutional Convention two years earlier, the French deputies swore not to disband until France had a new Constitution. Here, "The Tennis Court Oath," a painting by Jacques-Louis David (1789). Bailly is the central figure, standing on the table.*

Louis XVI's regime was at the financial mercy of Necker and the banking interests he represented, while the population of France was in revolt against the economic collapse and deprivation. Necker's ally, the King's cousin Louis-Philippe Duke of Orléans, was importing British-trained Jacobin radical writers into Paris, turning the Palais Royale district which he personally owned, into an anarchist bastion to overturn the French state. (One such writer, the infamous Jacobin Jean-Paul Marat, was to be imported from Switzerland particularly to launch attacks upon Bailly and Lafayette.) King Louis was manipulated by Necker into calling the Estates (Chambers) of the three classes of French society into session, a device that had failed many times since the 14th Century. It was in that context of a bankrupted nation, a corrupt "IMF" monetarist policy, and an angry population yearning for justice, that the creative scientist Jean-Sylvain Bailly entered political life, as Paris Mayor and its first Deputy to the Estates General.

Necker repeatedly demanded that the King introduce the *British* system of parliamentary monarchy into France: government by the financial and landed aristocracy. But the Estates, meanwhile, transformed and unified themselves into the National Assembly: Bailly, partisan of the principles of the *American* republic, was at its head and organizing a citizens' National Guard, commanded by the hero of the American Revolution, General Lafayette, to defend it. Louis XVI's desperate last-minute attempt to dismiss Necker, in July 1789, started the Bastille cannons firing into the citizenry in the Paris streets, and ended with the mob storming the Bastille and demanding the return to power of Necker, the man who had bankrupted France. This was the first step on the path to the Terror which took the life of Bailly, and

drowned the chance of a second American Revolution in France, so feared by the British, in blood.—*The Editors*

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## Bailly Creates The National Assembly

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For over 200 years, the French population has been celebrating the lie of Bastille Day as their national holiday, on July 14. The truth of the matter is, that the Bastille operation was a British-run terrorist action set into motion by a group of British-Swiss secret service agents—Jacques Necker, Baron Besenval Bronstadt, Louis-Philippe Duke of Orléans, and Jean-Paul Marat—whose primary objective was to manipulate public opinion against, and eliminate, the friends of Benjamin Franklin: Jean-Sylvain Bailly and Gen. Marquis de Lafayette. In this report on Bailly, we will demonstrate that the real bloodless "day of glory" of the French Revolution, had already arrived on June 20, 1789.

"A noble and touching picture presented for posterity is that of a man who, already famous in the domain of the sciences, commendable in all private virtues, who finds himself, almost without his knowledge, risen by public esteem to the highest functions; maintaining his modesty among the highest dignitaries, moderating in the middle of the most violent political dissensions; going through a raging revolution without being swayed by it; participating in all of its glories, yet remaining unstained by its excesses; defending liberty against power, and power against license, and whose wise life becomes crowned by the death of a hero. Such was Sylvain Bailly, first deputy of Paris to the Estates Gen-

eral, first president to the National Assembly, and first Mayor of Paris.”

Those are the words of A. Berville,<sup>1</sup> giving recognition to a true hero of the French Revolution, Jean-Sylvain Bailly, who was beheaded, in November 1793, by Britain’s Lord Shelburne’s Terror regime of Robespierre, after having been falsely accused of participating in a conspiracy, with Lafayette, to secure the escape of King Louis XVI, and his family, out of France.

The following review of Bailly’s role during the French Revolution, is of importance here for two reasons: First, is because of his historical and political alliance with Benjamin Franklin, and of the role he played with Lafayette, in establishing the constitution of the first National Assembly of France. Second, is because of his civilizational groundbreaking ideas relative to an astronomical hypothesis of ancient maritime civilization, and of the common heritage of mankind.

### Bailly’s Nature

In the opening words of his 1768 *Eulogy of Leibniz*, the universal genius who died in 1716, Bailly wrote the following beautiful and eloquent statement, which reveals quite strikingly the noble character of the man: “Nature is just; she equally distributes all that is necessary to the individual put on earth to live, work, and die; she reserves to a small number of human beings, however, the right to enlighten the world, and by entrusting them with the lights that they must diffuse across their century, she says to one, you shall observe my phenomena, to the other, you shall be a geometer; she calls on this one for the purpose of legislation; she calls on this other one to paint the morals of people, of revolutions, and of empires. These geniuses pass away after they have perfected human reason, and leave behind them a great memory. But all of them have travelled on different routes: Only one man elevated himself, and dared to become universal, a man whose strong will synthesized the spirit of invention, and the spirit of method, and who seemed to have been born to tell the human race: Behold and know the dignity of your species! These are the traits by which Europe has given recognition to Leibniz.”<sup>2</sup>

1. Messrs. Berville et Barrière, *Mémoires de Bailly* (Paris: Beaudoin Frères, 1821), Vol. I, p. iii. Bailly has also written for the Académie Française, a number of eulogies on Corneille, Molière, Charles V (1767), and a little gem: *Éloge de Leibnitz* (1768). His published scientific works are: *Théorie des Satellites de Jupiter* (1771), *Histoire de l’Astronomie Ancienne* (1775), *Histoire de l’Astronomie Moderne* (1776), *Lettres sur les Origines des Sciences* (1777), *Lettres sur l’Atlantide de Platon* (1779), and *Rapport sur l’Hôtel-Dieu* (1787). There is also a posthumous *Essai sur les Fables* (1810), in which Bailly develops the idea that the Gods of Olympus were human heroes turned into divinities.

2. Jean-Sylvain Bailly, *Éloge de Leibnitz* (Berlin: Haude et Spener, 1768), p. 1. The towering figure of Gottfried Leibniz has often been discussed by Lyndon H. LaRouche, Jr. and associates. See for example, LaRouche,

Indeed, this description is also a reflection of the measure of reason that history must claim for the extraordinary efforts that Bailly, the legislator, spent in establishing the National Assembly of France, during the first year of the French Revolution. As he demonstrated by his own example, Bailly was following the policy of Franklin’s grand strategy that he applied proportionately in every particular aspect of tactical situations. As if to underscore the measure of the Leibnizian calculus, Bailly showed that “for every differential, there had to be an integral.”<sup>3</sup> In other words, in order to solve the problem of determining the right tactical move to make, in the establishment of the “act of constitution” of the nation, one had to first discover the appropriate integral solution. By using this measure of proportionality of sufficient reason, Bailly was able to forecast, in advance of the events, the characteristic behavior of his political enemies. This is the same method of metaphorical proportionality that Lyndon H. LaRouche, Jr. uses today, giving him his ability to forecast events of our own times. Indeed, this pertains to a higher hypothesis whereby the geometric proportionality of metaphor is such that a strategic decision is to a tactical application as an integral is to its differential.

“Leibniz from Riemann’s Standpoint,” *Fidelio*, Fall 1996; Gabriele Liebig, “Leibniz, Cantor, and LaRouche on the Human Mind,” *EIR*, Oct. 1, 1993.

3. In his *Éloge de Leibnitz*, Bailly sums up Leibniz’s contribution to geometry in the following manner, demonstrating that he was a Leibnizian of the highest order. “The partisans of Descartes were unable to see beyond their own principles and opinions, and seemed to think that Descartes had put an end to the field of the sciences. It is then that Leibniz proposed to them the problem relative to the isochrone curve and to the paracentric curve, and demonstrated to them the usefulness of his principles by showing the impotence of the old method in solving these problems. Only Huygens was able to rise to the task, and he became the first to bring a solution to the first problem. But, even the Bernoulli brothers failed for a long time to solve the second problem, and succeeded only after they had internalized the Leibnizian principles. These illustrious geometers, in turn, challenged him by proposing the problems of the catenary and of the brachistochrone, which were immediately solved by Leibniz. The solution to these problems also depended on the integral calculus, whose principles were born out of the principles of the differential calculus. However, nature which has revealed the art of decomposition of magnitudes and of reducing them to their ultimate elements, does not always permit going from those elements back to their very magnitudes. Here science is limited: either because the principle is beyond the human mind, or because its knowledge is preserved for some future centuries, to whoever would become the author of a third revolution in the sciences, following in the footsteps of Descartes and of Leibniz. The difficulty resides in *discovering if any differential has its integral*, and if those that present themselves by accident are not often similar to those ruins of superb Asia, where an uncertain art searches in vain for the plan of the edifice. Leibniz, this interesting question was worthy of your genius! You have occupied yourself at solving this difficulty, and too great to flatter yourself without a cause, you were laying claim to unshared successes! Going down with Newton in the abyss of the infinite, you were the only one who climbed back to the edge, and there, deploying your art of reconstruction of magnitudes, you might have said to your rival: It was easy to go down to these dark shores, but my glory is to have come back to the light again” (emphasis added) (Op. cit. pp. 18-19).



*Left to right: Robespierre, whose Reign of Terror beheaded Bailly and many others, as the Revolution was drowned in blood; French Finance Minister Jacques Necker, an agent of Britain's Lord Shelburne. Ironically, after bankrupting France as Finance Minister, Necker was made the hero of the crowds storming the Bastille on July 14, 1789; and the Swiss Jean-Paul Marat, leader of the Jacobins, who was imported from London to attack Bailly and his ally Lafayette.*

## A Counter-Revolution

For example, Bailly understood that the truth about the French Revolution lay precisely in the terms that the great German poet, Friedrich Schiller, had identified it to be, including and through the events that followed the storming of the Bastille, on July 14, 1789: "A great moment in history has met a little people."

What is not generally known, is that this was not a true revolution, but a counter-revolution, organized from the headquarters of the "radical writers' club" of Lord Shelburne and Jeremy Bentham, head of intelligence, in England, which orchestrated, with the complicity of Finance Minister Necker, the Duke of Orléans (otherwise known as Philippe Égalité), and Baron Pierre-Victor Besenval, the massacre of the Bastille on July 14, 1789 (see *EIR*, April 21, 2000, p. 64). This in turn spawned the terrorist actions of the Jacobin leaders Jean-Paul Marat, Georges Jacques Danton, and Maximilien Robespierre, and the Reign of Terror. As he reported in his memoirs, Bailly had evidence that Marquis de Launay, the Governor of the Bastille, had opened the doors of the prison to Pierre-Victor, Baron de Besenval of Bronstadt, a Swiss officer, commander of the foreign troops that had invaded Paris, in 1789, and who ordered him to set up, in June of that year, at least two weeks before Bastille Day, "special artillery platforms for the emplacement of cannons pointed toward the boulevard, Saint-Antoine Place, and the side of the Arsenal."

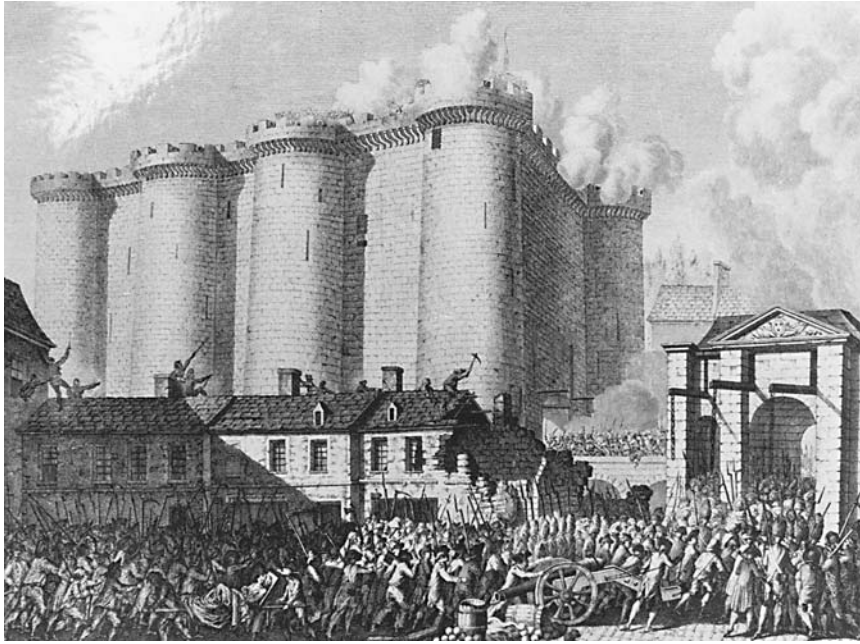
What is also not generally known, is that the Bastille terrorist action was aimed at destroying the heroic actions of Franklin's associates, Bailly and Lafayette, and their efforts

to replicate a second American Revolution on the European continent. As such, the Bastille served as a smokescreen to overshadow the solemn Tennis Court Oath of June 20, 1789, which had already demonstrated the true national sovereignty of the National Assembly as a representative government of France. In fact, the event of the *swearing of the oath* represented the culmination of several powerful legislative decisions made by Bailly's National Assembly, which reflected the "act of constitution" of a National Assembly that established the foundations of a true republic.

## The Measure of Reason Versus The Measure of Force

It is reported by the historian François Arago, that Bailly "became the particular and intimate friend of Benjamin Franklin, at the end of 1777."<sup>4</sup> In point of fact, very little is reported about their relationship; however, it is said that the two scientists and political leaders met, at least once, for an hour in Chaillot, the hometown of Bailly, and that no more than ten words were exchanged between the two, and that Franklin ended the "silent" meeting by saying: "Very well Monsieur Bailly, very well." It is ironic to suppose that, one year after the successful American Revolution, those two scientists, committed to the same political cause, would be at a loss for words.

4. François Arago, *Biographies of Distinguished Scientific Men* (Boston: Ticknor and Fields, 1859), p. 116. Arago is a scientist of the École Polytechnique, in the tradition of its founders, Lazare Carnot and Gaspar Monge.



*The storming of the Bastille, July 14, 1789. The anniversary of this date is now France's national holiday; yet the Bastille operation was a British-run terrorist action against Bailly, Lafayette, and their allies.*

Bailly resolved that nothing would deter him from complete commitment to the defense of the nation, which was in imminent danger of civil war. As early as June 17 to July 14, 1789, the crucial days in which the National Assembly was created, Bailly asserted his authority based on the sovereignty of the Assembly's representation of the plurality of the people of France.

During June 1789, Paris and Versailles had both been surrounded by tens of thousands of troops, mostly foreign forces, which had been made ready to intervene at a moment's notice. In fact, troops were constantly deployed throughout Paris from June 13 until July 12, 1789. For what purpose, nobody seemed to know. The situation was getting so tense that, after the June 23 speech of the King at the National Assembly, Count of Mirabeau, elected to represent the city of Aix in the Third Estate, succeeded in having the Assembly adopt an emergency security measure that declared: "The person of each of the deputies shall be inviolable." He succeeded in convincing Bailly, who was hesitating. Mirabeau said: "You do not know what you are exposing yourself to! If you do not vote for this decree, 60 deputies, and you the first among them, will be arrested tonight."<sup>5</sup> It is not clear how

5. Bailly, op. cit., Vol. I, p. 217. The son of Victor Riquetti, the Marquis de Mirabeau (1715-89), was a follower of Quesnay and the Physiocrats. Honoré Gabriel Riquetti, the Count of Mirabeau (1749-91), was a famous public speaker of the National Assembly and a staunch royalist who, like Bailly and Lafayette, rejected absolute monarchy. He was rejected by the nobility because he advocated the principle of sovereignty of the people. He promoted equality of religions and the suppression of privileges for the nobility. In

much Mirabeau really knew about the plot to arrest members of the Assembly, but several of his interventions during these very difficult days were indeed very opportune.

Curiously enough, the most revealing security question that remained to be answered with respect to this entire period was indicated by what was not there. As the events of July 14 showed, the foreign troops did not intervene to prevent the Bastille from firing on the people, or to stop the popular revolt against the Bastille. Why were the foreign troops not brought into action? As we shall see, these foreign troops had been set in motion by Finance Minister Necker, whose mission was to paralyze the actions of Bailly at the National Assembly, and to prevent Lafayette's Paris Militia from entering into action, and intervening against the Bastille terrorist operation.

Necker was personally deployed to intervene against Bailly, on behalf of his British masters. It was Necker who proposed to the King that the Estates General be called into existence, and that the King himself should endorse the British form of parliamentary monarchy. Necker wanted to establish a House of Lords that would preserve the privileges of the nobility and the upper clergy, and a Commons that would supposedly serve the interests of the general population. He thought that he was being cunning in doing this, so that the King could order the creation of the "one man, one vote" structure, especially in matters of taxes, but under the control of the minister. However, the Estates General were formed by the King under three distinct groups: the nobility and the clergy, each representing one-quarter, and the Third Estate, representing one-half. In this fashion, the nobility and the clergy did not have a majority that could override the interests of the Third Estate.

However, something very unexpected took place, which took Necker totally by surprise. This unforeseen development occurred when the Estates General were transformed into the

1789, Mirabeau published a Secret History of the Berlin Court, after he had been sent on a secret mission to Prussia by Charles Alexander de Calonne. Calonne was the Comptroller General of Finances in 1785, who sought exile in England in 1787, after Necker "pushed" him out. It is reported that during the revolution, up until 1802, when he was rehabilitated back into France, Calonne had been providing the armies of the princes, and of the émigrés, with military expenses. As for Mirabeau, there was a constant suspicion that he may have been a double agent. He is said to have intrigued against Lafayette, and that the truth of his treachery against the revolution was finally found in a metal armory, discovered in 1792, a year after his death. We must look further into this matter.

National Assembly. Never in the history of France, was there ever recorded such a singular moment, in which the “nobility of heart,” and the duty to the nation, were evoked with such enthusiasm, as during the constitution of the National Assembly. And, it happened on the basis of the discovery of a principle. Yes, several representatives of the nobility and the clergy allied themselves with Bailly in adopting his principle of representation of the people, as the expression of their personal commitment to the nation.

As Bailly put it: “I have always thought, and I still think today, that a little more of this philosophical spirit would not have harmed a bit the Constituent Assembly. These were my principles; my conduct has been that of my duties: I do not remember, from my own reason, when general reason became explicit. The first law had been the will of the nation: As soon as it had been assembled, I have not known any other sovereign will. In my stations, I was the man of the fatherland; I knew only to obey. From this has emerged a constitution which, regardless of its defects, is a superb work.”

In other words, it was not numbers that established the National Assembly, but the power of reason agreed upon by a majority. It was not the will of the particular individuals that counted, but the will of the Assembly and its president, in which the will of the particular individuals had been subsumed.

### The Source of Authority

**June 17, 1789:** In the words of the president of the Assembly, Bailly, June 17, 1789 “is forever memorable.” Indeed, June 17 was the day that the National Assembly gave itself its name as well as the authority to establish a constitution; that is, the day when the Assembly made public the announcement of the sovereign rights of the nation. Or, as Bailly put it, this was the day when the Assembly “had shown, for the first time, the firm and wise countenance that was fitting for its representatives and for the depositories of its authority.”

Indeed, Bailly insisted that, even when the signatures of the representatives were appended to a decision of the Assembly, this would not, by itself, represent a legitimate decision. “If we consider those signatures as emanating from particular wills out of which the general resolution must spring, they will only weaken the expression of that resolution. However, when it has been certified by the majority, the individual wills have vanished away. It has become the will of the Assembly as a whole, and the act only requires the signature of the president to establish its authenticity; the Assembly speaks, signs, and expresses itself always by its organ.”

Thus it was that, only when the members of the Assembly gave their full measure of personal commitment, and dissolved their individual interests into that of the national unity, that the Assembly, and its president, could legitimize the decision. This is the basis for the legitimacy of the “act of constitu-

tion” of the National Assembly. What was established on that day, was the principle “that it belongs only to the Assembly to declare the will of the nation as founded upon reason,” and that “there cannot exist any veto, or negative power, between the Throne and the Assembly.”<sup>6</sup> Thus, the Assembly passed the resolution of Abbot Sieyès, which stated: “The Assembly, deliberating after the verification of powers, recognizes that this Assembly is already composed of representatives directly delegated by at least 96% of the nation.”

After this statement of authority was voted on by the Assembly (491 in favor, 90 against), Bailly and the secretaries of the three orders (who had been deputies to the Estates General) were sworn in as the leaders of the newly created National Assembly. Thus, the Estates General were dissolved. The whole process was, indeed, designed to dissolve the power of the three separate orders—the nobility, the clergy, and the Third Estate—but without dissolving the authority of the King. Bailly wrote: “The Assembly sensed very clearly that the act of its constitution, perfectly wise, perfectly just, and founded on the natural rights of man, took, however, a daring and extraordinary form, which, at the moment of the awakening of reason, and when all eyes had not yet been accustomed to its brightness, could give to prejudices and to pretensions some powerful means to attack it. The court and the two orders had an equal interest at stake. One could not misapprehend that the very destruction of these orders was embodied in the dispositions of this act: By establishing the fact that we could do without them, we were demonstrating their uselessness and their abuse. The government could not help but notice that this act was taking over the authority which, up to that day, was uniquely royal, and was putting it into the hands of the nation and of its legitimate representatives.”<sup>7</sup>

By the next day, the majority of the deputies had been inspired by the emergence of this sovereign act of self-government, and decided to join the National Assembly, and so did one-third of the nobility assembled. *A measure of reason had been created.* It was nothing else but the recognition of the power of reason that made the majority of the deputies of the three orders join the new “union.”

The call for saving the nation was overpowering, and it became clear to all of the deputies that an unprecedented constitutional authority had been put on their shoulders, and the immense responsibility for public order became their most passionate concern. The National Assembly had just received the mantle from heaven. In the meantime, the bishops sensed the danger to their interests, and rallied behind the “absolute authority” of the King. The treasonous Bishop of Autun, Charles Maurice Talleyrand, a known British asset working for the Duke of Orléans, left the Assembly realizing that the

6. Bailly, op. cit., Vol. I, p. 159.

7. Bailly, op. cit., Vol. I, pp. 164-65.

rules of the game had been changed, and that Bailly had to be stopped.<sup>8</sup>

### Taxes and Debt: A Challenge to Necker

A second act, which was generally recognized as wise and firm, but very dangerous to the oligarchy, was the necessity for the Assembly to levy taxes. This was a direct affront to Necker and his Ministry of Finance. Thus, the Assembly began to take over the authority of the ministries. The act was passed in the following form: “The National Assembly intends and decrees that all levy of taxes and contributions of all nature, which will not have been in due form and freely accorded by the Assembly, by name, will cease to exist entirely in all of the provinces of the kingdom, whatever their administrative form.”

As Bailly put it, “It was necessary to dissipate promptly any worry in this matter, and to guarantee public credit.” And, as a way to put Necker and his ministry on notice, Bailly noted that it was necessary to “consolidate the debt as an act of solemn justice which could not be left in the hands of anyone but the Assembly.” Thus, “The Assembly moves to declare that, as soon as it will have fixed the principles of national regeneration, in concert with His Majesty, it will occupy itself with the consolidation of the public debt, putting immediately the creditors of the state under the watch of loyalty and honor of the French nation.”<sup>9</sup> Because the entire finances of the kingdom had been ruined, Bailly was attempting to establish a legitimate reorganization of the debt, by transforming the debt into an asset for development, in the footsteps of what Alexander Hamilton had done after the American Revolution.

### The Tennis Court Oath

June 20, 1789 was the *punctum saliens*, the day on which occurred the most crucial and solemn moment in the history of the French Revolution: the swearing of the Tennis Court Oath. Bailly decided to have the members of the National Assembly swear an oath by which they would not depart, until they had given France a constitution. This amazing event is an echo of the action of the signers of the American Declaration of Independence, who committed themselves not to ad-

8. Bishop Charles Maurice Talleyrand is, without a doubt, one of the most venal, immoral, hypocritical, and swinish characters that ever pretended to serve France. He was made deputy of the clergy at the Estates General of 1789, and president of the Constituent Assembly in 1790. He was the number-one British asset from the high clergy and for the Duke of Orléans. He was sent to London by the legislature, after which he was accused of having conspired for the benefit of the Orléans faction, against the King of France. After the revolution, he became a key player in Napoleon’s empire, and later, a crucial asset to the Bourbon restoration. He also played an important role in the perversions of the 1815 Congress of Vienna. Talleyrand never hesitated in betraying whatever regime he served, when it was convenient for his British masters. He was the consummate French political whore.

9. Bailly, op. cit., Vol. I, p. 169.

journal until the Declaration was either signed or repudiated. It also adds irony to the famous “silent” meeting between Bailly and Franklin, in Chaillot, in 1777.

Early in the morning on June 20, Bailly and his deputies went to their meeting place, in the Hall of Menus Plaisirs, and found the doors closed. They were told that it was being prepared for the speech of the King, to be held three days later. Convinced that this was an attempt by Necker to prevent their deliberations from taking place, Bailly decided to take his deputies to the nearby building of the Tennis Court (Jeu de Paume), located near the Versailles Palace where the King was. It was there that the representatives of the National Assembly unanimously pronounced the historic oath (with the exception of one voice). The oath was as follows:

“The National Assembly, considering its role in establishing the constitution of the kingdom, in working toward the regeneration of public order, in maintaining the true principles of the monarchy, in assuring that nothing can prevent it from pursuing its deliberation, in whatever place it may be forced to constitute itself, and that, wherever its members may be assembled, there stands the National Assembly,

“Declares that all of the members of this Assembly shall, in a moment, solemnly swear to never depart, and to assemble itself anywhere that circumstances will permit, until the constitution of the kingdom is established, and consolidated on solid grounds; and the said oath being sworn, all of the members, and each in particular, shall confirm this unshakable resolution with their signature.”<sup>10</sup>

Bailly, who wrote the oath, and read it in a very loud voice, swore to it first, then everyone else swore the oath together, before their president. A large crowd assembled outside applauding loudly, and cried out many times as with one voice: “Hail to the King!” The message was very loud and clear, against the despotism of Necker, and in favor of maintaining the principles of a constitutional monarchy, as Bailly had defined them.

### A ‘Little King’

The Assembly, under Bailly as president, decided to unify itself with the monarchy, and against Minister of Finance Necker. Bailly wrote: “If the Assembly was acting firmly and courageously in taking useful precautions against the ministry, if it was arming itself against its despotism, it was, however, of one heart and spirit with the King, and had no intention to do anything against his legitimate authority; the Assembly had even taken the precaution of declaring in its decree that one of its duties was to maintain the true principles of the monarchy, in order to prove to everybody that whatever could be considered hostile in its advances, was directed against

10. Bailly, op. cit., Vol. I, p. 191. There exist two known pictorial representations of this historical Tennis Court Oath. One is an engraving by M. Jazet, and the other is a painting by L. David, dated 1791. It is unclear if the actual signed document of the declaration is still in existence.

despotism, and not against the monarchy.”

**June 23, 1789:** The day when King Louis XVI spoke before the National Assembly was also a decisive moment for the French Revolution. This day should be remembered as a day when history met a powerful and sovereign National Assembly, but a very unfortunate, and little King. Indeed, the King made a very arrogant speech. In a revolutionary period, there always exists a crucial moment, when the crisis can turn to the greatest advantage of mankind, or to tragedy and disaster; and that always depends on whether the parties involved act according to the measure of reason, or according to the measure of force based on old habits and former privileges. This was the most tragic moment of Louis XVI.

On that day, the King chose to abandon a perfectly acceptable proposal for a constitutional monarchy, and ended his presentation by giving an impotent and imperious marching order to an Assembly that had already established its own sovereignty. After a long, self-serving speech, the King ordered the close of the Assembly, an act that only its president could legitimately execute. So, provocatively, he put Bailly on the spot by saying: “I order you, gentlemen, to disperse right away, and to come back tomorrow morning, each in your chamber according to your order, in order to resume your deliberations. Consequently, I order the master of ceremony to make the rooms ready.” Then the King left. Those “chosen words” were exactly contrary to the oath taken by the Assembly in Versailles on June 20.

Bailly was stunned by this theatrical statement. How could the King not have accepted the olive branch extended by the Assembly? Bailly knew that Louis XVI had sympathies with the successful American Revolution; so, why would he not embrace the same cause with respect to the French Revolution? Why could he not follow in the footsteps of the Renaissance King, Louis XI, and commit himself to the general welfare of the people? This is the moment of tragedy, when the King chose to reaffirm the old privileges, when he should have recognized the new constitutional authority of the National Assembly. Bailly realized that the King was not wise enough to see his tragic mistake; so he chose not to offend him, but to respond to the situation with measure and compassion, indicating in his memoirs, that such a crisis could only be resolved through the power of reason—that is, through the application of a strategic-integral overview determining each and every tactical-differential decision:

“Poor prince,” said Bailly, “where have they led you, and how much have they deceived you! After the departure of the King, the totality of the nobility and a part of the clergy retired, the communes remained at their place, calm and keeping silent. The grand-master of ceremonies [M. de Brézé] came to me and said: ‘Sir, you have heard the King’s order?’ I answered him: ‘Sir, the Assembly will adjourn after the royal presentation; I cannot close it until it has deliberated.’ ‘Is that your response, and can I inform the King of it?’ ‘Yes, Sir.’ And I added to my colleagues, who were around me: ‘I think

that the assembled nation cannot receive any order.’ It was said and repeated that I had made this reply to M. de Brézé. The official response to his message is the one that I have just reported. I had too much respect for the King to make such a response; I knew only too well the attention that a president owes to the Assembly for me to implicate it without its consent. It was the Assembly’s function, not mine, to weigh, to know, and to declare its rights. In truth, Mirabeau took the floor and, flaring up at the grand-master of ceremonies, said approximately what was afterward repeated: ‘Go and tell those who sent you that the force of bayonets cannot do anything against the nation’s will.’ Many praised that response, which was not one, but an apostrophe which he should not have made, and which he had no right to make, because only the president had the right to speak, and he was not only out of place, but was also out of measure.

“Measure requires that we answer only to what is said. Did anyone speak of bayonets, did anyone announce the use of force, did any threat come out of the mouth of M. de Brézé? No! He repeated, according to his duty, the order of the King. Did the King have any right to give that order? The Assembly, in pursuing its session, decided, no. As for me, by declaring that the Assembly could not be dismissed until after it had deliberated, I had maintained its rights and its dignity; and I remained within the measure whereby an Assembly and its president must never be apart.”

By making this response, Bailly put his friends in a delicious little paradox: Is this a capitulation to tyranny, or is it an act of sovereign reason?<sup>11</sup>

Although Bailly was a royalist, it was clear that the King’s authority could no longer be absolute. However, the time had come to protect the King against himself, and to keep the monarchy intact, under the already-established constitutional authority of the Assembly. Bailly understood that “the mantle from heaven” had shifted, and that the newly founded authority of the Assembly had to be maintained without bloodshed, and with the guarantee that the sovereignty of the King was to reside in the love of the people, and therefore in the Assembly of its representatives. From that moment on, the revolution had been consummated; this was also a moment that the British understood very well, and feared the most. The enemy did not waste a moment.

### **The Paris Militia: Too Little, Too Late**

**July 1, 1789:** Paris was very agitated and the National Assembly began a discussion to establish a Paris Militia. The entire Assembly was disquieted by the violence of the day before, which involved the delivery of French Guards who had been detained for disciplinary action at the Abbey, and by the increasing presence of troops around the National Assembly.

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11. Bailly, *op. cit.*, Vol. I, pp. 214-15.

Mirabeau kept repeating to the members that, as long as there were any doubts on the part of the King, and the ministers, as to the sovereignty of the National Assembly, there would be a serious danger to the lives of all of the deputies.

**July 8:** Mirabeau intervened in the Assembly to declare that a great number of new troops were arriving every day, and were becoming more and more numerous, with trains of artillery following them. All of the roads and bridges were changed into military posts, as if there were some great “preparation for war.” “Why all these preparations?” he asked. “To maintain order, to contain the people? . . . Such precautions, instead of calming the people, will alarm them, and will agitate them.”

Thinking about the security of the members of the Assembly, Mirabeau made the following “prophetic” statement: “What if the soldiers get electrified by their contact with the capital; what if they get interested in our political discussions, and, mixing with worried citizens, some soldiers become insubordinate, and resort to some impetuous actions; sedition will march with its head up: What would happen to the authors [deputies] of these measures when the general conflagration shall be lit everywhere, when the drunken people launches itself into the excesses whose extreme I fear to think of.”<sup>12</sup>

At that point Bailly began to wonder if Mirabeau didn’t have some particular advance knowledge of what was about to happen. He noted, “Mirabeau could have had some special intelligence to back up such a sense of prophecy.”

As a precautionary measure, the National Assembly called for the King to order the troops and their artillery trains out of Paris. The King replied that it might be simpler if the Assembly were to consider moving the location of its deliberations outside of Paris. Bailly feared, and rightfully so, that, after the declaration of June 23, “perhaps the National Assembly will be dissolved . . . since the King did declare that ‘*I alone will do the good for my peoples; alone I will consider myself to be their true representative.*’ ” Bailly added, “*This arbitrary coup of absolute authority, so strange under such circumstances, would have been backed up by those 20 or 30,000 men assembled with their artillery.*”<sup>13</sup>

**July 9:** The Assembly decided to plan three days of deliberations for the purpose of establishing the *rights of man, the principle of the monarchy, the rights of the nation, the rights of the King, the rights of citizens, the principles of judicial power, the functions and duties of military power*, and so on. Also, as a desperate means of sending a message to the King, the Assembly declared, “When the means of governing does not derive from the clearly expressed will of the people, there is no constitution; there is only a govern-

ment which, in fact, varies with the circumstances, and which gives in to all events. Then, the authorities have more power to repress human beings than to guarantee their rights; those who govern and those who are governed are both miserable.”<sup>14</sup>

**July 10:** Lafayette was voted in as vice president of the National Assembly, and he introduced a project for a declaration of human rights. A weak attempt was made by a British agent, M. de Tollendal, to discuss the British system, in which the rights of the King, of the barons, and of the people are considered together. Both propositions were sent to committees for further study.

**July 13:** The city council of Paris passed a resolution to confirm the establishment of the National Guard for the city of Paris, arguing that this would be sufficient to guard against all dangers and to guarantee peace and security for all citizens. M. de Leutres introduced a motion stating: “The National Assembly and the city of Paris are threatened by the greatest calamities; that new foreign troops were brought in to join those at Saint Denis, and around Paris; that these war preparations must create the greatest alarm in the hearts of the citizens; . . . and that unless measures are taken immediately, this Monday, July 13 will be more disastrous than the July 13 of last year.”<sup>15</sup>

Indeed, a considerable number of foreign regiments had been deployed. Bailly reported on July 10, that “the regiments of Provence and of Vintimille were stationed in Neuilly; the Royal-Cravat regiment, Helmstadt, the royal Polish regiment, were located in Sèvres and Meudon; Salis-Samade, Chateauvieux, and Diesbach, Swiss regiments (under the supervision of Baron de Besenval de Bronstadt); Berchini, Esterhazy, and Royal Dragoons were at the Champs de Mars with artillery equipment; other regiments were at Saint Denis, Besançon, and La Fère, plus several German regiments which were either at Saint Denis or somewhere else around Paris.”

## Necker Is Pulled Out

Just to indicate how carefully the plan was being prepared, on July 11, during a dinner with Necker, the King handed him a note ordering him to leave the country quietly and immediately. Very calmly, Necker left the dinner table with his wife, called for his coach, and drove to Saint-Ouen. There, he wrote a note to Madame de Staël, his daughter, telling her that he was leaving for Brussels at midnight.

Mirabeau made a cryptic statement to the Assembly concerning the exile of his enemy Necker: “We can only measure with terror, the pit of evils where yesterday’s resolution could bring the fatherland; the exile of M. Necker, which was for a long time the wish of our enemies, has been consummated.” In other words, in Mirabeau’s mind, the enemy was recalling

12. Bailly, op. cit., Vol. I, p. 294.

13. Bailly, op. cit., Vol. I, p. 299.

14. Bailly, op. cit., Vol. I, p. 305.

15. Bailly, op. cit., Vol. I, p. 322.



his agent away from the troubles to come. To which Bailly added: "I have to admit that Mirabeau was considering less the loss of Necker than the disastrous events which his exile portended."

Bailly was deputized to head a large delegation to see the King at Versailles, and to attempt to convince him to pull the foreign troops out of Paris, and replace them by the Paris Militia. But, the King kept insisting that he would not dismiss the foreign troops. Meanwhile, Lafayette was sitting as vice president, night and day, at the National Assembly, until further orders. Reaffirming a motion made by M. Biauzat, Lafayette called for the Assembly to recognize that the disorders in Paris had been instigated by the ministers. During the same meeting, the Assembly called for the distribution of arms to the citizens to form the Paris Militia.

M. de Flesselles, a recent deputy who had pledged a total of 42,000 rifles from M. de Pressoles, a gun manufacturer in Charleville, turned out to be a traitor, and did not deliver the rifles. The militia was to be composed of 60 battalions, forming 16 legions, and everyone was to wear the blue and red *cocarde* representing the city. Anyone wearing the colors of the city without being registered in the appropriate districts would be arrested. A large contingent from the French Guards joined the militia after they had an armed encounter with the Royal Germans on Place Louis XV in the heart of Paris.

**July 14:** The permanent committee for the Paris Militia was fully mobilized, while Lafayette was still presiding over the National Assembly. In Versailles, Bailly continued to try to get a restraining order from the King to pull the troops out of Paris, and avoid the clash between these so-called "royal troops" and the Paris Militia.

Bailly realized that the foreign troops had received the order to kill citizens, at random, and then to pull back, leaving the enraged people to run wild. The agitation of the people, had changed to fury, wrote Bailly. It was clear that an order had been given to storm the Bastille. A "Reichstag fire" provocation had been set up, and Bailly was doing everything he could to stop it.

As early as 8 o'clock in the morning, the cannons on the walls of the Bastille prison were aimed at the people who began to gather below. An early deputation was sent by Lafayette from the National Assembly to the prison, but it returned without success. Lafayette would send four separate delegations that day, with white flag and drum to convince Marquis de Launay, the governor of the Bastille, to spare the blood of the citizens. None of the deputations were received by him. Bailly wrote, "All day it was reported that citizens had been wounded by shots coming from the fortress. It was normal to conclude that, by all of the false rumors, and all of the false alarms that came from every quarter, that the idea was to maintain, and increase the agitation of the people and bring the Bastille under siege." Out of desperation, the Militia committee of the National Assembly took the following decision: "The permanent committee of the Paris Militia, considering

that there should not be, in Paris, any other military force under the command of the city, appoints the deputies who are being sent to M. le Marquis de Launay, governor of the Bastille, to ask him if he would accept inside this place troops from the Paris Militia, who shall protect it with the troops that are already inside, and who should be put under the order of the city."<sup>16</sup>

The deputation was sent with a drummer and a white flag, but there was no one to receive them at the Bastille. The deputation reported that they saw "shooting from above and from below; from above on the multitude; from below, on the fort." For Bailly this situation was conclusive. "The fact is that somebody wants the siege of the Bastille, its destruction, and the death of its governor." It is reported that the governor would invite some citizens inside the fort, only to have them shot. This, to Bailly, was consistent with the fact that de Launay refused to meet with any of the delegations that the Assembly had sent to him. When the defenders of the fort pointed a cannon and fired a shot which killed three people below, the population erupted in fury. It was at that moment that 300 French Guards and a multitude of other people stormed the Bastille with cannons.

### Why Defend an Unimportant Post?

Two notes addressed to the Bastille were later discovered. The first, addressed to M. du Puget, mayor of the Bastille, stated: "I am sending you, my dear du Puget, the order that you know is necessary; you will carry it. Paris, July 14. Besenval." The second message said: "M. de Launay, will hold to the very last extremity; I have sent him sufficient forces. This July 14. Besenval." The Swiss officer, Baron Pierre-Victor Besenval de Bronstadt, commanding officer of the foreign troops controlling the entire Paris region, including two Swiss regiments that never entered into action, wrote these two notes. Finally, the news came that the Bastille had been taken, and that M. de Launay had been carried out to City Hall, where he was murdered at the bottom of the steps.

Bailly concluded that, as far as de Launay is concerned, "there is no doubt that orders were given to defend himself to the very last; and I cannot conceive of the reason for this, because the Bastille was neither a citadel, nor an important post. . . . Whatever may have been his orders, a general insurrection was surely not intended; it necessarily had to force a modification of them. The Bastille was a prison and not a citadel; it was not worth defending at the cost of the people's blood; even the commandant of a post must defend himself differently, whether he is attacked by the people or by the enemies of the nation. This situation required more precise orders, much more appropriate to the circumstances of the moment, which were not known in Versailles, for taking the extreme decision to open fire and to massacre Frenchmen. De

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16. Bailly, op. cit., Vol. I, p. 377. (See also the newspaper *Le Courier de Provence*, no. 23, 1789.)



*Gen. Marquis de Lafayette, although a hero of the American Revolutionary War and an ally of Bailly, was weakened by his commitment to the aristocracy and the Bourbon royal family, even above the urgent necessity of national sovereignty and survival.*

Launay has not recognized the deputations that were sent to him; furthermore it was his duty to call on the city to discuss [the situation] with him.”<sup>17</sup>

Indeed, Bailly was able to reconstruct, piece by piece, how the storming of the Bastille had been a preplanned general insurrection orchestrated by the British-Swiss agents, Jacques Necker, Philippe Égalité, and Baron Besenval de Bronstadt, at the behest of their British masters Lord Shelburne and Bentham. Besenval’s memoirs shed some interesting light on the matter.<sup>18</sup>

17. Bailly, op. cit., Vol. I, p. 386.

18. *Mémoires du Baron de Besenval sur la Cour de France* (Paris: Mercure de France, 1987). Pierre Victor Baron de Besenval was born in Soleure, in 1721, by a Swiss father and a Polish mother. His father had been made a noble under Louis XIV, and became Baron of Bronstadt. His mother was a Polish cousin of Marie Leczynska of the royal family. From 1713 until 1721, the father, Jean-Victor Besenval, Jr., was Louis XIV’s Ambassador to Warsaw. Pierre-Victor Besenval married Catherine Bielinska, the daughter of Francis Bielinski, marshal of the Court Guards under Stanislas Leczynski. When Louis XV married the daughter of the dethroned King of Poland, Mme.

In his memoirs, Besenval wrote that, on July 12, 1789, he had taken the decision to “*withdraw the troops, and leave Paris to its own fate.*” His timing was perfect. After sabotaging the shipment of arms destined to the National Guard of General Lafayette at the National Assembly, Besenval left the so-called “defense of Paris” in the hands of an enraged mob, just two days before Bastille Day. Although he was no longer in Paris on July 14, Besenval dispatched a messenger to the Bastille mayor and governor, ordering them to defend the prison to the very end, and at any cost. His signed note to the governor stated: “M. De Launay, will hold to the very last extremity; I have sent him sufficient forces.” He later wrote that, because the King was convinced that there might be a popular revolt against him, he was relieved of his duties, and was ordered to leave France.

Besenval left Paris, but remained in France until the end of July, when he was arrested, and then immediately released, after Necker pleaded before the National Assembly, “on his knees,” for Besenval’s freedom. Necker was not going to abandon the man who had caused the expenditure of “100,000 men and 100 million bank notes.” On the other hand, Bailly was not going to let the number-one terrorist of France go free. On July 31, Besenval was again arrested, and brought back to Paris, and put under the protective custody of the National Guard of Lafayette, personally, before he was to stand trial for the crime of high treason and for having laid the “siege of Paris.” But, Necker intervened again, and succeeded in getting an acquittal, after the Swiss Guards intervened with a petition to spare his life. Besenval died of some undisclosed disease, in his home on June 2, 1791.

In his *Memoires d’Outre-Tombe*, Count de Chateaubriand adds this interesting twist to the characterization of Besenval: “Baron de Besenval, a liar and cynical voyeur of high society’s corruption, a busy-body for all the childishness of the old monarchy, this heavy baron compromised

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Besenval became a “personage” at Versailles.

During the French Revolution, Besenval became a British asset who, in alliance with Necker, Marat, and his Genoese associate, Mallet du Pan, set up the massacre of the Bastille.

Besenval’s greatest hatred was oriented against the work accomplished by Bailly and Lafayette, in the National Assembly. Officially, however, his enemy is the Baron de Beaumarchais, an ally of the American Revolution, and the author of the French plays *The Barber of Seville* and *The Marriage of Figaro*, the most powerful satire against the rotten nobility of the time.

In 1789, Besenval was made commander-in-chief of the Paris garrison, and of the surrounding provinces of Soissonnais, Berry, Bourbonnais, Orléans, Touraine, and Maine. In May 1789, it was Besenval who was responsible for the shooting at the Faubourg Saint-Antoine, and who successfully convinced the minister of war, Count of Puysegur, to increase the militarization of Paris, which became the crucial instrument in provoking the French populist mob against the Bastille. Even Besenval’s biographer admits that the “decision to withdraw the troops and leave Paris to its own devices,” led the “populace to pillage Les Invalides, and to march on the Bastille.” This decision was taken by Besenval regardless of the explicit message from the King, which ordered him to “repel force with force.”

in the affair of the Bastille, saved by M. Necker and by Mirabeau, only because he was Swiss: what a miserable wretch!"<sup>19</sup>

## The End of the Feudal Regime

Relentless in their efforts, Bailly and Lafayette continued to fight for the completion of their "act of constitution," and finally succeeded in establishing the first part of the constitution in the form of a *declaration of human and citizens' rights*, which Lafayette, personally, had developed with the contribution of Thomas Paine and Thomas Jefferson, during their stay in Paris. Seventeen such rights were submitted and voted on, at the National Assembly on Aug. 4, 1789, and established that the constitution was explicitly founded for the purpose of "maintaining the happiness of all." That day was so inspiring that, during the evening meeting, the nobility agreed to abolish all of their rights and privileges. The decree of Aug. 4, 1789 stipulates, in Article I: "The National Assembly completely destroys the feudal regime."

The entire feudal system of privileges was brought down. The oligarchs screamed that this was the "Saint Bartholomew of possessions." Bailly noted: "Never have so many individuals sacrificed so much, and demonstrated so much generosity, by voting in one concerted action, and all at once. It is the night of destruction [of privileges] and of public happiness. . . . The feudal system that weighed on the people for centuries, has been destroyed in one blow, and in an instant. The National Assembly had accomplished more for the people in those few hours, than the most wise and enlightened nations have done during many centuries."<sup>20</sup>

## Necker's Treason: A Still-Born Revolution

Four crucial facts can be established to make the case of high treason against Jacques Necker.

*Fact number one:* The objective of Necker's plan was to establish a French constitutional monarchy based on the British constitution, including the protection of privileges for the nobility. That objective required that the French National Assembly had to be subjugated, or destroyed, and that the protagonists of the American Revolution who had control over it had to be destroyed.

*Fact number two:* The June 17, 20, and 23 historical events of the National Assembly were putting Necker and his British masters, Lord Shelburne and Bentham, at risk of losing their control over France. Necker knew how to manipulate the King against Bailly and Lafayette. He estimated that Bailly would not be able to counter the emergency plan of "100,000 soldiers and 100 million bank notes." Bailly acknowledged, after July 14, that this amount of bank notes had effectively been printed. Necker's plan was simple: *Either the National*

*Assembly accepts the June 23 declaration of the King, or he will provoke the mob to storm the Bastille.*

*Fact number three:* Necker foiled the plans of the Paris Militia by preventing the mobilization of 48,000 National Guardsmen under the command of Lafayette to protect Paris. Necker used a phony arms merchant, M. de Flesselles, to infiltrate the Assembly, and sabotage the efforts of the permanent committee to deliver rifles to the Paris Militia. In fact, the boxes marked "Artillery" that were received by the committee, the first delivery which was supposed to amount to 12,000 rifles, turned out to be filled with old clothes! Even on July 15, when the National Assembly named Lafayette to be commander-in-chief of the Paris Militia, the citizen-soldiers did not have their rifles. The arms were later found in the basement of Les Invalides, where Besenval had hid them after intercepting them.

*Fact number four:* Necker's British-Swiss associate, Baron Besenval de Bronstadt, kept his Swiss regiments out of action while giving his marching orders to M. de Launay to execute the Bastille plan to turn the Paris population into a brutal and bloody predator mob, a typical Roman Empire-style fascist "*vox populi*."

*Fact number five:* Necker's Bastille coup had been locally orchestrated from behind the scenes by the cousin of Louis XVI, the Duke of Orléans, who had his eyes on the throne, and was planning to become the "Jacobin King," with Necker as prime minister. Thus, Louis Philippe Joseph of Orléans changed his name to Philippe Égalité, got Danton and Robespierre to nominate him as a member of the Montagnard Jacobins, and get him a seat at the convention, where he called for the King's head. It was this Orléans faction that organized the regicide of Louis XVI, and sentenced him to death by the guillotine. The King was beheaded on Jan. 21, 1793. But, the plan did not unfold as anticipated, because Philippe Égalité was also to be guillotined, later that same year.

## Necker's Plans for a National Bank

The following report by Bailly, on a speech by Mirabeau's father before the Assembly, further establishes the case of high treason against Necker: "M. de Mirabeau senior, spoke against the plan that M. Necker proposed for a national bank. He said that a national bank should be based on an absolutely new concept, and not on the blind hopes of four articles of proceedings; that the minister's project opens up a vast field for speculators and gamblers, and does nothing but perpetuate unfavorable affairs. He warned against the danger of not being able to limit the amount of currency. Most of all, he asked that we be allowed to verify the accounts of the state's coffers. He saw in the minister's plan nothing but a veil covering up another veil; and he finally made the observation that the state does not need an intermediary body to deal with the necessary credit for the payment of the debt, and that this should be under the control of the finance committee [of the National Assembly]."

19. Chateaubriand, *Mémoires d'Outre Tombe* (Paris: La Pléiade, Tome I), p. 185.

20. Bailly, *op. cit.*, Vol. II p. 216.

Bailly concluded: “The minister of finance should be informed that the National Assembly awaits his general plan for the purpose of examination; and meanwhile, the Assembly declares that the funds allocated to the public debt plus interest, shall be separated from the other expenses, and shall be under the control of an administrative body of the nation. . . .

“M. Lavenue seriously indicted the activities of the Discount Bank. But M. Dupont de Nemours, who has also declared himself in favor of the Necker plan, defended the bank. No decision was taken.”<sup>21</sup>

This knowledge alone should have been enough to get Necker out of the way, but no such action was ever successful against him. The senior Mirabeau did not have a better plan, because he was a staunch defender of François Quesnay and the Physiocrats.

The reason for Necker’s strength is partially explained by the British control and financial backup of a clique of saboteurs of both the French Revolution and of the American Revolution. Historian Anton Chaitkin identified this point: “Most effective for the British side had been the ‘irregulars’ from the British-Swiss secret service, including: British espionage leader (and Aaron Burr’s [Burr killed the first U.S. Secretary of the Treasury, Alexander Hamilton] cousin) Jacques Mallet du Pan; Swiss banker (and Albert Gallatin’s cousin [Gallatin, as Treasury Secretary destroyed U.S. finances]) Jacques Necker, who strangled the French kingdom’s finances; and Jean-Paul Marat from Neufchatel and Geneva, who was trained for ten years by British intelligence in England before going on to murder thousands of France’s intellectuals in the Reign of Terror.”<sup>22</sup>

### Necker’s Push for the British System

Bailly knew that Necker had a heavy hand in writing the King’s June 23 speech. In a postscript, Bailly intimated that it was Necker who sabotaged the revolution by creating the false opposition between the King and the National Assembly: “It seems certain to me that M. Necker had an important hand in shaping the [King’s] declaration of June 23; that either he was upset because a few minor changes had been made to it, and that became the reason, or the excuse he used, for not attending the royal meeting, or, he was upset because he perceived, a little late, that the hateful blame would fall on the ministry, and he wanted to guard himself against it. In any event, he was entirely successful, because his manipulation led him to triumph” (pp. 306-7). Bailly thought that Necker was making a plan for the King to return to absolute power, and never suspected that he was actually attempting to get the King of France to adopt the British constitution.

Many years later, Madame de Staël wrote that her father, Necker, made a declaration to the King on the eve of June 23,

21. Bailly, *op. cit.*, Vol. III, pp. 294-95.

22. Anton Chaitkin, *Treason in America* (Washington, D.C.: Executive Intelligence Review, 1999), p. 59.

1789, which said in part: “Sire, what you must now do is to accede to the reasonable wishes of France, and resign yourself to adopt the British constitution. You will not personally suffer any constraints by adopting that rule of laws; since they shall never impose on you as many barriers as your own scruples do; and, by anticipating the desires of your nation, you will concede today what she might demand tomorrow.” Madame de Staël cynically replied that “the declaration, as it was written, almost word for word, by Necker, was similar to the one given to Louis XVIII, at Saint Ouen, on May 2, 1814, twenty-five years after the opening of the Estates General. Are we not entitled to believe that the bloody circle of these 25 years would not have occurred, if only we had accepted on the very first day what the nation wanted then, and will never cease to want?”<sup>23</sup>

Was it so surprising that the Charter of the second Bourbon restoration of Louis XVIII, in 1814, was the official establishment of the British-styled constitutional monarchy in France, at the same time that it was consecrating the essential acquisitions of the Jacobin and Napoleonic counter-revolutions? Was that not the plan of “Orléanism,” that France establish an historical Entente Cordiale with England, and become a liberal parliamentary system, as it continues to be to this day? The continuity of this filthy tradition was fully confirmed when the son of Philippe Égalité, Louis-Philippe I, became King, and reigned from 1830 until 1848, at the end of which time, another revolution forced him to seek exile in his favorite home away from home, England.<sup>24</sup>

### British Agent Marat Deployed To Eliminate Bailly

On July 17, 1791, as Mayor of Paris, Bailly was forced to impose martial law on the city. The National Guard under the orders of General Lafayette, then general commandant of the Paris Militia, was provoked to fire on an enraged mob gathered at the Champs de Mars, where 24 people were killed. This was another set-up, like that of the Bastille. The purpose of the provocation was clear. After the events, both Bailly and Lafayette were branded as assassins of the people. This was the beginning of the end for both Bailly and Lafayette. As a result, Lafayette abandoned the revolution, and went into exile, on Aug. 19, 1792.<sup>25</sup>

23. Madame de Staël, *Considérations sur la Révolution Française*, quoted in Bailly, *op. cit.*, Vol. I, p. 460.

24. The degeneration of the counter-revolution into the imperial insanities and the killing fields of the Napoleonic era, as well as the several Bourbon restorations, only goes to demonstrate that France was never able to bring back the spirit of Bailly and Lafayette until Charles de Gaulle instituted the Fifth Republic after World War II.

25. Contrary to Bailly, Lafayette chose self-exile rather than to defend his actions. Even though he was an American Revolutionary War hero, and had made crucial contributions with Bailly to the cause of the French Revolution, his commitment to the aristocracy represented a crucial flaw of character, as exemplified by the tone of his letters to Mme. de Simiane, one of the ladies-

Bailly was forced to resign on Sept. 19, 1791. In December of the same year, at Le Havre, Bailly refused to exile himself, and rejected the idea of fleeing to England, as a way to save his own life. Upon his return to Paris, where he expected the worst, he made a very courageous declaration. He stated, “*The man who was in charge of a great administration has to stay and give account of his conduct, regardless of the threats against him.*”<sup>26</sup>

The historian Arago established how Jean-Paul Marat, also a British-Swiss agent, was the initiator of all of the slanders against Bailly, as soon as he arrived in Paris, under the cover of physician to one of the princes of the royal family. His first deployment, before sending thousands of French citizens to the guillotine, during the Reign of Terror, was to discredit and eliminate Bailly from the political scene. During the period that preceded the events of 1789, Marat had availed himself of the intimacy of the Duke de Villeroy, Governor of the city of Lyons, who promoted him to a competition in physics. As Arago puts it: “The prize so longed for and so singularly proposed was not obtained, however, by the Duke de Villeroy’s candidate, but by the astronomer Flaugergues. From that instant, the pseudo-physicist became the bitter enemy of the scientific bodies of the whole universe, of whoever bore the title of an academician.”

A month after the takeover of the Bastille, Marat returned from England, where he had been trained in Lord Shelburne’s “radical writers club,” and founded a Paris journal, *The Friend of the People*, for the explicit purpose of destroying both Bailly and Lafayette. Arago writes: “The mayor of Paris, the General Commandant of the National Guard, were the first objects, therefore, at which the pamphleteer aimed.”<sup>27</sup>

Marat’s denunciation of Bailly included three principal accusations: 1) Bailly was a pensioner of the King, 2) Bailly spent his entire life in the study of exact sciences, and 3) Bailly attempted to take advantage of the events of Aug. 30, by bringing to his person all of the authority of the municipality.<sup>28</sup>

The pros and cons of these accusations are not of any interest, in and of themselves. The nastiness of their effects, however, resides in their ability to influence the ignorance

and littleness of the Parisian population, when they are bombarded with repeated lies. Arago notes, concerning Bailly: “The illustrious philosopher, the virtuous magistrate, gave no basis for any positive and decisive charges against him. The pamphleteer understood this well; and therefore adopted vague insinuations, that allowed no possible refutation, a method which, we may remark by the way, has not been without imitators. Marat exclaimed every day: ‘Let Bailly send his accounts!’ and the most powerful figure of rhetoric, as Napoleon said, repetition, finally inspires doubts in a stupid portion of the public, in some feeble, ignorant, and credulous minds in the Council of the Commune; and the credulous magistrate wished, in fact, to send in his accounts. Here they are in two lines: Bailly never handled any public funds. He left the Hôtel de Ville [City Hall], after having spent there two-thirds of his patrimony.”<sup>29</sup>

Moreover, the accusations against Bailly were based on underlying assumptions that Marat, as a trained agent of British intelligence, maliciously used to manipulate public opinion: 1) “accepting a pension from the King is an infamy,” 2) “the revolution has no need of science,” and 3) “one central authority is despotism.”

By Oct. 10, 1793, Bailly was brought in for judgment before the Jacobin court. He wrote his own defense, entitled “Bailly to His Fellow Citizens.” The new accusation, treason against the revolution, was much more serious. Bailly was accused of having plotted the escape of King Louis XVI. The accusation read: “Whereas, according to the declarations of Louis-Charles Capet [Louis XVI], and of the Capet daughter, that Lafayette, favorite in all respects of the Capet widow, and Bailly, then mayor of Paris, were present during the escape from the Tuileries castle, and that they facilitated it with all of their power.”

Bailly replied: “It is false that I had been at the Tuileries on the day of June 20; it is false that I have facilitated in any way the escape of the family of Louis. On the contrary, it is true that I did everything in my power to prevent it and to stop it.” Then he began to describe what he and Lafayette did that day. He asserted that, because of the notices that he had received, and the worries that he had, he had “asked the Commanding General Lafayette to go to the Tuileries, which it was his responsibility to guard, and that he must instantly go and see what was happening, and that he should take all the security precautions which he deemed necessary. He replied that he would go to the castle, and would give the most strict orders; and that even though the alluded project seemed to him unlikely (these were his words), he would put an end to the execution of this plan. Lafayette effectively went to the castle; he came back to City Hall a little after midnight; and announced that all of the gates were closed, that he had himself made the change of the guards at all of the doors; and he added

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in-waiting of Marie Antoinette. Mme. de Simiane was a Lafayette “confidante” and a regular “correspondante” who was trying to convert him away from the revolution, and win him over to her brand of “conservative royalism.” In one of his many letters, Lafayette replied to her in the following manner: “I cannot tell you how much sorrow your letter has caused me. This Revolution that I had long wished for, that my efforts have, in part, provoked, that I defend with all my might, is making all those I love unhappy. I will be devoted to it until my dying day, but all the charms it had for me have been poisoned by the effect it has on the people dearest to my heart.” This is the Romantic flaw of Lafayette. It was, indeed, very unfortunate that the people closest to his heart were not the citizens of France.

26. Bailly, op. cit., Vol. I, p. XXV.

27. Arago, op. cit., p. 189.

28. There exists a defense of Bailly by Prudhomme in the *Révolutions de Paris*, No. 12.

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29. Arago, op. cit., p. 190.



*A barricade in France during the Revolution; the real battle, throughout, was between those who wanted to follow America's path as a constitutional republic, and those who played the British game of revenge upon the French state and the French nation.*

(these are his expressions that I remember very well) that not even a mouse could escape.”

There is no doubt that this testimony is true, and that, not only would Bailly not engage in such an escapade, but neither was Lafayette capable of such a planned desertion. Such an action was uncharacteristic of either individual. Both Bailly and Lafayette were committed to establishing some kind of “constitutional monarchy,” and Lafayette truly believed, as he stated, that *“the real deserters are those men who have not abandoned their standards.”* We have shown elsewhere how this statement becomes tragically true in his own case, as Lafayette is forced to abandon the revolution, in August 1792.

At his trial, Bailly then said, “As for Lafayette, I wish to come back to this, because it is important for me to demonstrate that my relationship with him has never been suspect, and that it is wrongly that some take pleasure in associating me with the reproaches that public opinion holds against him. If Lafayette has involved himself into some intrigues, he knew my loyalty only too well to take me into his confidence: I have not participated in them, because I have always ignored them. I repeat it, there only existed between us a relationship of position, and no intimate personal relationship. I will admit it, I have tried to maintain, even at the cost of sacrifices, a good intelligence between him and me, because I have always thought that the tranquility of the capital depended a lot on the union of the Mayor of Paris and the chief of the national guard. My relations with Lafayette have been only those that any mayor must have with the commanding officer of the armed forces.”<sup>30</sup>

30. Bailly, op. cit., Vol. I, p. 407.

## **A Profound Lapse of Modern History**

Bailly and Lafayette knew they had been betrayed. On the evening of July 14, Bailly wrote the following note in his memoirs, realizing with sadness, that the lie of the *vox populi* had been victorious over the crucial work of the National Assembly: “These great changes had been carried out, and completely, by the decrees of the 17, 20, and 23 of June, but it was only for the eyes and the knowledge of the legislators and of the enlightened minds. The Bastille, taken and razed to the ground, spoke to everybody.”

One might add, that the Bastille spoke the lie of *vox populi* to the ignorance of an enraged mob. In France, on that day, such was the razor-edge difference between truth and fiction. To this day, this crucial difference—between the days of national strength sealed by a few courageous men, on June 20, and the day of national weakness of the great majority of a little people, on July 14—is still not recognized, and remains one of the most profound political lapses of modern history.

However, history may be grateful that Bailly restored the truth of the matter: “We suspected the existence of a great plan, and that the execution of this great plan had been fixed for the night of the 14 to 15 [of July]. It is certain that the governor of the Bastille, who had foreknowledge of it, had moved all of his belongings several days before; there only remained the large furniture affixed under seal. I was told that, in Paris, the Swiss barracks were filled with munitions; that many of them saw a plan to envelop and take over the Palais-Royal [sic]. I was told that, in Magdebourg, before receiving news of the events of the 13 and 14th of July, the sons of a French general officer, working under M. de Broglie around

Paris, had the news that Paris was going to be attacked on seven fronts. I was told that the execution of that project required 100,000 men and 100 million [bank notes]. It is true that a considerable number of troops were all over Paris, and that state-notes had been printed. M. Necker was an awkward witness; he had to be sent away. He was sent into exile, and there are reasons to believe that he had been forewarned, since M. de Broglie complained that he, himself, had not been warned, and that the orders had been given precipitously during the night of the 10th to the 11th. Letters which have been seized from officers show that they had orders to get closer to Paris on the 13th and 14th. If we compare this with the language of the responses that the King was told to give ('I must use the necessary means which are in my power, in order to restore and maintain order in the capital and its surroundings'; this was said on the 10th: on the 13th he said: 'I have already made my intentions known to you concerning the measures that the disorders in Paris had forced me to take. It is solely my decision to judge of their necessity, and I cannot, in that respect, make any changes.'), visibly, the plan was being followed."<sup>31</sup>

Not only does Bailly make it absolutely transparent that Necker was involved in printing 100 million in bank notes to pay a mercenary army of 100,000 men to take over Paris, but that the plan was also to take over the National Assembly, and prevent, in France, a replay of the American Revolution. This is the true reason why Bailly was put to death.

On a rainy day in November 1793, Bailly was brought, his hands tied behind his back, before a furious populace. For three hours, he was paraded, half-naked and freezing, before a mob which was throwing rocks at him, hitting him with sticks, and spitting in his face. Rain was pouring down his body, and he was weak and shivering. Like his glorious predecessor, Joan of Arc, Bailly humbly accepted his fate. "You are trembling, Bailly?" asked one of the guards. "Yes, my friend, because of the cold," serenely replied Bailly, as he walked up to the scaffold and put his head beneath the blade to receive the deadly blow. Bailly died at the age of 57.

## Long Live June 20!

Two important points must be made here if one is to have a coherent understanding of the historical role played by Bailly and Lafayette, at the beginning of the French Revolution. First, the official line that is peddled by French historians, and sanctioned by the French authorities, and which comes from another British asset, François Furet, is an abominable lie, and a complete fallacy of composition:<sup>32</sup>

31. Bailly, op. cit., Vol. I, pp. 390-91.

32. François Furet, *Revolutionary France, 1770-1880* (Oxford: Blackwell, 1988). Incapable of recognizing the true patriotic character of Bailly's Assembly, Furet distorts the facts by peddling the popular opinion of the British secret service concerning partisan bourgeois interests. "The next day, it [the National Assembly] assigned itself the vote on taxation and placed the state's

The National Assembly did not establish its strength based on the support of the barristers' protection of the "property-owning *rentier* bourgeois class," which was asserting the sovereignty of "democracy over monarchy." Furet makes the events of the establishment of the National Assembly sound like a poverty-pimp operation. This is frankly disgusting, totally slanderous, and a defamation of Bailly and Lafayette and their noble efforts.

On the contrary, the revolution was born out of the courage and willful determination of only a handful of people, whose grand design was to unite with Benjamin Franklin's efforts to establish an international conspiracy that would eradicate the tyranny of absolute monarchy. The French Revolution would have had a better chance at republican freedom under the authority of a Bailly type of constitutional monarchy, rather than under a bloody British-controlled terror, followed by the fascist imperialist Napoleon Bonaparte, and a British-controlled "Orléanism"; an unfortunate situation which has been perpetuated until today.

It is a disgrace to the human race that on July 14, the French people continue to celebrate the victory of the Swiss cabal of Necker, Philippe Égalité, Baron Besenval, Marat, and of their British masters of the Bastille. Isn't it time that French poodles stop sniffing up to British bulldogs, and put an end to the charade of celebrating this British holiday, known as Bastille Day? It is also shameful that France continues to give credit to a *treasonous, still-born revolution*, based on the *vox populi* that had been rejected by the National Assembly only a month earlier,<sup>33</sup> while the highest moment of statesmanship and of honor that France had known, was represented by the days surrounding the Tennis Court Oath, on June 20, 1789. Why has the truth of this matter never been made public in France?

It is time to restore the truth of history in this matter, and let it be known, for the sake of future generations, that those few extraordinary hours during the French Revolution, had resonated to the international call of Benjamin Franklin to put an end to the tyranny of oligarchism worldwide. It is time for an axiomatic change. The French nation will never recover its true humanist role in the world until the lie of Bastille Day is publicly repudiated.

*Vive Bailly! Vive le 20 juin! Vive la France!*

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creditors 'under the guard of the honor and uprightness of the French nation.' This was a clever way of telling the Parisian bourgeois, who were so near at hand, that if bankruptcy was a royal custom, then the protection of the property-owning *rentier* democracy was a revolutionary innovation. Truly a different sovereignty had just been baptized: the Revolution had been born." Thus, Furet chose the right moment for identifying the beginning of the Revolution, but, as a typical British agent, identified it with the wrong reason.

33. This is the reason why the name of National Assembly was chosen, as opposed to the proposal of Mirabeau: "Representatives of the French People." This way, the name of "National Assembly" would avoid the use of the word "people" precisely as a way to avoid the degenerate implication of the "*vox populi*."

## Ashcroft Fight Is Really About Fascist Path for U.S.

by Debra Hanania-Freeman

When Lyndon LaRouche warned a Washington, D.C. audience on Jan. 3, that unless put on a very short leash, the incoming Bush Administration would likely move quickly, under the guise of “crisis management,” to impose a brutal bureaucratic fascism on the United States, bearing striking similarities to the conditions under which Adolf Hitler seized power in Germany in 1933, at least some thought that LaRouche, who by then had declared that he would seek the Democratic Party Presidential nomination in 2004, might be exaggerating. However, Bush’s swift and relentless drive to ram through his crisis management team, no matter what it takes, has established LaRouche’s authority as uncontested.

In a move designed to cripple the drive of the Bush team toward a rule-by-decree dictatorship, LaRouche has thrown the full weight of his international movement behind a drive to defeat Bush’s choice for Attorney General, former Missouri Senator John Ashcroft, a man whose judicial philosophy and whose record, would clearly make him a leading and enthusiastic part of a team determined to suppress the general welfare, and preserve the power of the financial elite, through the imposition of Hitler-style emergency measures. As we go to press, that battle is still raging.

LaRouche’s drive has transformed the situation from one in which, on Jan. 12, the day that LaRouche’s testimony opposing Ashcroft was filed with the Senate Judiciary Committee, only one member of the Senate—Barbara Boxer (D-Calif.)—was prepared to vote against confirmation, to the current situation, in which 41 Democrats are reportedly prepared to vote against Ashcroft, and a filibuster is a very real possibility.

During three days of hearings before the Senate Judiciary Committee, witnesses, including two members of the Congressional Black Caucus—Reps. Sheila Jackson Lee (D-Tex.) and Maxine Waters (D-Calif.)—as well as Missouri Supreme Court Judge Ronnie White, an African American

judge who was denied a Federal judgeship as a direct result of Ashcroft’s intervention, have raised disturbing questions about Ashcroft’s record on issues such as school desegregation, the death penalty, and civil rights. Ashcroft has been pressed on his ardent defense of the Confederacy. But, thus far, although the hearings have been contentious at times, the central issue that defines the defeat of Ashcroft as a life-and-death issue has yet to be addressed there.

### The Financial Collapse

LaRouche has made it clear that his opposition to Ashcroft is shaped by two considerations that go beyond the factors normally involved in considering a nominee for the nation’s top law enforcement post: the extraordinary, onrushing financial and monetary breakdown crisis that is likely to be the first and overriding order of business confronting the incoming Bush Administration; and second, specifically in this context, the role that the next Attorney General will play, as a leading member of the Executive Branch crisis team, in dealing with the consequent crises certain to arise in these extraordinary circumstances. LaRouche has noted that the next Attorney General will have responsibilities in this broader crisis-management team setting, that are likely to supersede his more immediate role within the Department of Justice and subsumed Federal law enforcement agencies.

Indeed, on the eve of the inauguration of George W. Bush, the conditions are overripe for the declaration of a full-blown emergency. California, the nation’s richest and largest state, is undergoing rolling blackouts, and defaults on hundreds of millions of dollars by California’s utilities are threatening to pull the plug on billions more, forboding a chain-reaction collapse in the banking sector both domestically and in Japan. Bush has made clear that he has absolutely no intention of taking steps, as President Franklin Roosevelt would have, to guarantee affordable power production and availability to





*The LaRouche movement demonstrates against John Ashcroft (inset, at Senate confirmation hearing) to become Attorney General. Sen. Edward Kennedy (D-Mass.) said at the hearings: "Our government tyrannical? If the Senator . . . doesn't know the difference between the British and insurrection, [and] the American Revolution, and this government that has been formed under James Madison and the Constitution, . . . I think this nominee owes an apology to the people of the United States."*

California residents, but instead favors measures that would ensure debt payment to Wall Street. With this reality in mind, the Bush team is arguing that, in order to be able to act decisively and to avoid potential ensuing chaos, President George W. Bush requires that his cabinet be confirmed immediately. And, in an unprecedented action, the Senate Democratic leadership agreed to a 3 p.m. Senate session on Inauguration Day, just hours after Bush is scheduled to take the oath of office, presumably to give him what he is demanding.

Although simple arithmetic might seem to favor Ashcroft's confirmation, with Senate Republican Leader Trent Lott (Miss.) pledging that all 50 Republicans will vote to confirm him, and at least one Democrat, Zell Miller (Ga.), issuing a public statement that he will also vote yes, an early vote seems unlikely, as the LaRouche-initiated drive to defeat Ashcroft continues to intensify in both scope and depth.

Constituency groups ranging from organizers of the Million Mom March to the AFL-CIO called press conferences, and issued statements demanding that Ashcroft be denied confirmation. Andrew Cuomo, the son of New York's former Governor and the enormously popular outgoing Secretary of Housing and Urban Development, called on Bush to withdraw Ashcroft's nomination. National Association for the Advancement of Colored People head Kweisi Mfume pledged that his group will engage in civil disobedience actions, if that is what it takes to block confirmation.

### **A Filibuster Is Necessary**

And, LaRouche's call for Democratic members of the Senate to engage in a filibuster to jam up the nomination

process emerged as a very live and credible option. The fact is that Lott may have enough votes for the simple majority that confirmation requires, but it does not appear that he has the 60 votes required to stop a filibuster. Although attention so far has centered on Sen. Edward Kennedy (D-Mass.), who raised the possibility of mounting a filibuster to block the nomination in remarks he made on Jan. 17, he is not the only Senator considering such a move. Again, though, LaRouche's leadership will be the key. Senate Democratic leader Tom Daschle (S.D.) pledged, as part of some pathetic "power-sharing" agreement he has made, that there would be no filibuster, and Lott threatened that "any attempts at procedural tricks, like a filibuster, would be swatted away like a fly on the windshield." But LaRouche supporters have continued to mobilize with total determination to define exactly what the stakes are, and to put especially Democratic members of the Senate on notice that capitulation on this point is not an acceptable option.

The message couldn't be clearer. Bush has assembled a team, with Ashcroft as a key player, that has shown an open predilection for suppressing dissent, and ignoring the Constitutional commitment to the general welfare. If the Ashcroft nomination is confirmed, Democrats may never have another chance to protest the dictatorship measures which are the stock in trade of the Wall Street crowd which put Bush in power in the first place. Jamming up the Ashcroft nomination is the first and crucial step in building a potent, new force, committed to fighting for the general welfare, rather than "negotiating" for crumbs from Wall Street. It is not too late for the American people to decide just what kind of government they want.

# Challenges Continue To Florida Vote

by Michele Steinberg

According to evidence filed in a class-action lawsuit by civil rights organizations led by the National Association for the Advancement of Colored People (NAACP), there is no recount that can redress the November 2000 Florida vote fraud. That is because thousands of black voters in the state were illegally turned away from the polls because of illegal “purges” of voting records, failure to adequately search for valid voter registrations, and other malfeasance by Florida Secretary of State Katherine Harris and other election officials.

The NAACP suit was filed in the U.S. District Court of the Southern District of Florida on Jan. 10, one day before the U.S. Commission on Civil Rights began its first hearing on the Florida irregularities. After two days of hearings, the head of the Civil Rights Commission, Mary Frances Berry, termed Harris’s sworn testimony “laughable.” Berry charged that Gov. Jeb Bush, who also testified before the commission, is the ultimate authority responsible for all the irregularities, and worse, that occurred on Nov. 7.

Harris’s conduct at the hearings is just one indication that the Bush apparatus is intent on keeping the lid on the massive disenfranchisement which occurred. On Jan. 8, State Senator Daryl Jones (D-District 40) participated in a press conference which criticized the fact that a commission established by Bush in Florida to review the voting irregularities was scheduling its proceedings at times and places that made it impossible for witnesses to provide their evidence to the commission. After a strong intervention, the commission was forced to change its procedures.

## Thousands Excluded from Voting

The NAACP suit is one of the strongest challenges to broad-based vote fraud and irregularities filed in the United States in recent history. Filed on behalf of black voters in Florida, and on behalf of 77 NAACP branches, the suit picks up on a crucial issue raised by *EIR* and by former Democratic Party Presidential pre-candidate Lyndon LaRouche: the illegal purging of the voter rolls by a private company, Choicepoint, Inc., also known as Database Technologies, Inc. That firm, named as a defendant in the suit, is charged with having “failed to exercise appropriate diligence and care to ensure and to verify the reliability and accuracy of the list of ineligible voters” sent to polling places throughout the state.

There is no question that the number of disenfranchised

alone was more than the margin of victory claimed by George W. Bush in the election.

According to the NAACP suit, “The number of Black citizens of Florida who were denied the right to vote . . . or whose right to vote was abridged or impeded . . . is so numerous that joinder of all members is impracticable. On information and belief, tens of thousands of ballots in counties and precincts where substantial numbers of Black citizens reside were not counted in that election. . . . [And] *thousands of Black citizens were denied registration, wrongly purged from the voter rolls, and denied opportunity to vote in that election*” (emphasis added).

Voter after voter on Election Day, where a record number of African-Americans had come out to cast their ballots, were told they could not vote because of their “felony convictions.” But, as the suit demonstrates, these voters never *had* a felony conviction. In fact, some of the disenfranchised had never even been arrested.

The faulty information came from Choicepoint, Inc., but that was just a small piece of the overall pattern. The suit claims that there was “racial disparity in election administration in Miami-Dade County,” “wrongful purging of voters from official lists of eligible voters,” “failure to timely and correctly process voter registration applications or address information,” and “unequal access to inactive list” information, where disputed voter registrations could have been located, allowing voters to cast their ballots.

## Bush Team Stonewalls

According to the Jan. 13 *Washington Post*, the first round of hearings by the U.S. Commission on Civil Rights focussed on exactly these allegations that Florida voters were improperly removed from voting rolls. The *Post* also reported that “that there was an unusual heavy police presence at some predominantly black precincts, and that inadequate assistance was given to disabled voters and those who needed help with English.”

Christopher Edly, a Democrat appointed to the commission by the U.S. Congress, charged, “It seems to me there has been some systematic disenfranchisement of voters . . . because people haven’t cared enough to spend the money to have good voting systems and voter education.” He harshly criticized Florida officials for covering up the failures. Victoria Wilson, another commission member, said that Harris was “on a merry-go-round of denial” about the fraud.

The NAACP lawsuit is limited in that it exclusively looks at Florida, while vote irregularities occurred nationwide. A broader solution lies in the call for a National Commission to investigate the November 2000 election, an initiative sparked by LaRouche, which has received nationwide support from elected officials, especially among African Americans. LaRouche also sparked the opposition to the nomination of John Ashcroft to Attorney General, which has become the leading political fight in Washington.

# Rumsfeld Aims at China, Korea in Hearings

by Our Special Correspondent

China and South Korea have reacted strongly against extended statements by incoming Defense Secretary Donald Rumsfeld at confirmation hearings on Jan. 11, and statements from George W. Bush, that they intend to put the dysfunctional National Missile Defense (NMD) and Theater Missile Defense (TMD) programs on fast track. Under the headline “Rumsfeld Vows To Press For U.S. Missile Defense System,” China’s Xinhua News Agency on Jan. 12 quoted Rumsfeld’s statement that “Missile defense . . . must be achieved in the most cost-effective manner that modern technology offers.” Xinhua reported that “George W. Bush has promised to construct an NMD system despite the opposition from China and Russia, and concern in Europe that it could wreck the Anti-Ballistic Missile Treaty.” Rumsfeld, Xinhua noted tersely, described the ABM Treaty as “ancient history.”

“This is not conducive to world disarmament and arms control efforts and will have a negative impact on the 21st Century global and regional strategic balance,” Chinese Foreign Ministry spokesman Zhu Bangzao said on Jan. 16. “The Chinese side expresses serious concerns over this.”

*EIR* Founding Editor Lyndon LaRouche wrote the original Strategic Defense Initiative (SDI) policy for President Ronald Reagan in 1980-82, proposing entirely new physical principles, such as space-based lasers and relativistic beam weapons, which could actually stop missiles—and could be shared with Russia, China, and other nuclear powers, rendering nuclear weapons obsolete. Today’s NMD/TMD program, however, pits missiles against missiles, and doesn’t work. Its primary use is to politically bludgeon other countries.

Worse, Bush and Rumsfeld have made negative comments on China and North Korea which turn back to a Cold War policy bent, just as peace is breaking out in Asia. Bush told the *New York Times* on Jan. 7 that China is “not a strategic partner” of the United States, as Bill Clinton advocated, and Rumsfeld elaborated on Jan. 11. “It is true, as the President-elect said, that we are competitors,” Rumsfeld said. “They are seeking influence in the region, and we’re in the region. And I read their military writings, and we see their defense budget increasing by double digits every year. And we see their military doctrine talking about leap-frogging generations of capabilities and moving towards asymmetrical threats to the United States—cyberwarfare. . . . I think we have to be wise and we have to be engaged. But we can’t engage in self-delusion. They are not strategic partners, in my view.”

## Throwing It All Away

Rumsfeld’s comments on North Korea, in particular, drew an angry response from Seoul, where South Korean President Kim Dae-jung has been moving mountains to cooperate with Pyongyang and finally sign a peace treaty ending the Korean War. “We are urging the Bush team: ‘Don’t throw it all away,’” a South Korean official told *EIR* on Jan. 16. He was irate about reports from Washington in Japan’s *Nihon Keizai* daily, that the Bush Administration plans to cancel delivery of peaceful nuclear reactors for North Korea, and offer coal plants instead. “Does Washington want a crisis? Why would they provoke the North Koreans to restart their own nuclear program in such a way?” the official said. “Replacing a nuclear power plant, currently under construction in North Korea, with a thermal plant, is unworkable politically, economically, and technologically,” Song Min-soon, director of the Seoul Foreign Ministry North American Bureau, told the *Korea Times* on Jan. 14.

The South Korean official also reiterated Seoul’s opposition to unilateral construction of a TMD in Asia, as a provocation. “Your new government is portraying the North as a missile proliferator which is starving their own people deliberately,” he told *EIR*, because “they would like to have a certain missile policy.”

Rumsfeld’s testimony was indeed negative on North Korea. “I think it is in our anti-proliferation interests across the globe that North Korea stop proliferating, stop threatening South Korea and behave rationally to its people, and stop having them die of starvation,” he said. “It’s hard to believe that a country that can’t feed its own people, that has a dictatorship that is repressive and damaging to its country as anything on the face of the Earth, could be developing and marketing and benefitting financially from the proliferation of these technologies, but it’s a fact.”

Asked whether North Korea weren’t dismantling its plutonium plants as promised, Rumsfeld replied: “I know what I know, and I know what I don’t know. . . . Specifically, they are world-class tunnelers. They have gone underground across that country in a way that few other nations have done. They have underground implacements of enormous numbers of weapons. For me to sit here, having never been there, and not being a sufficient expert to know anyway, and say that I have high confidence that they are doing what the agreed framework suggested, would be foolhardy. It’s a shell game with those folks. . . .

“Well, North Korea is . . . selling those capabilities and technologies and trading them around the world. They are an active world-class proliferator. . . . When we asked if they would change their behavior with respect to ballistic missiles, one of the responses was: ‘America, you’ve bombed in the Sudan, you’ve bombed in Afghanistan, you’re bombing in Kosovo, you’re bombing in Iraq, and you’re giving food aid to North Korea.’ Now, why? Why is the behavior so different? Well, they believe it is because they have those weapons.”

# Sen. Jesse Helms Gets A New Lease on Life

by William Jones

The irascible old curmudgeon, Sen. Jesse Helms (R-N.C.), chairman of the Senate Foreign Relations Committee, has most often been taken to be a harmless old fool, who, given his age, would soon be retiring from the political scene. During the Clinton Administration, Helms served primarily as a “grenade-thrower” against Clinton’s foreign policy initiatives, one who was capable of throwing up roadblocks to Clinton proposals, but was rarely able to derail them entirely. With the inauguration of George W. Bush on Jan. 20, Helms — and his insane agenda — have received a new lease on life.

The Senator himself was given the opportunity to lay out that agenda on Jan. 11 at the American Enterprise Institute, the conservative think-tank from which President Bush may be choosing many of his middle- and lower-echelon officials. Helms spoke to a generally sympathetic crowd, including former House Speaker Newt Gingrich, who emerged from his forced retirement (in opprobrium). Helms made clear that the perennial rumors of his own “demise” were greatly exaggerated. He began by outlining some of the measures that he had succeeded in pushing through Congress during the last eight years: the Helms-Burton sanctions against Cuba, the National Missile Defense Act, and the UN reform legislation. “And that is just the legislation that we succeeded in forcing through an unwilling White House!” Helms exclaimed. “The number of important measures that the outgoing Clinton Administration succeeded in stopping is simply staggering.” With a grin, Helms added, “A week from Saturday, on Jan. 20, all that will change.”

Helms paid some *pro forma* homage to “bipartisanship,” especially important with the 50-50 split in the U.S. Senate. Then he went to his major point: “But we cannot, and must not, ignore the fact that something has changed in Washington. . . . For the first time in five decades, Republicans will control the White House, the Senate, and the House of Representatives. And that means Republicans can have an unprecedented opportunity to set the policy agenda — especially in the realm of foreign affairs. We must, and we will, seize that opportunity.”

## ‘Faith-Based’ Counterinsurgency

He then proceeded to describe the “Helms agenda” for the next four years. The Senator, who has long been an opponent of foreign aid, now wishes to breathe life into a new type of foreign assistance. In the spirit of Bush’s “compassionate conservatism,” Helms would like to replace the Federally financed aid organizations, such as the U.S. Agency for Inter-

national Development (AID), with private, “faith-based” alternatives, that have been so praised by the incoming President. Helms pointed to the South Carolina-based “Samaritan’s Purse,” a charity run by Billy Graham’s son, Franklin. Samaritan’s Purse is “currently in southern Sudan, where a brutal civil war is tearing a nation apart,” Helms said. “Samaritan’s Purse runs hospitals and clinics which — despite repeated bombings by government forces — provide desperately needed medical and surgical services to the suffering Sudanese people.” (In fact, the U.S. has been backing a British-run insurgency against a legitimate government, leading to thousands of deaths.)

Instead of Federally employed AID workers, Helms would send down cadres of fundamentalist Christians to “assist” the people. As in southern Sudan, these non-governmental organizations would run their own low-level counterinsurgency operations against legitimate governments, using the pretext of “humanitarian concerns” to rally support for a particular side in a conflict. Such operations reached their high point with the establishment of quasi-autonomous non-governmental organizations, or “quangos,” under Executive Order 12333 during the Reagan-Bush Administration. “My dear friends,” Helms told the hundred or so co-thinkers who had gathered, “these are the ‘armies of compassion’ that President Bush is talking about. And I put it to you: If we can deploy those ‘armies of compassion’ across America, then we can and must deploy them across the world.”

## A ‘Blue Team’ Agenda

Helms also shared his thoughts on how the United States would deal with the People’s Republic of China, which he continues to refer to as “the Beijing dictatorship.” “The military balance of power of the past 20 years is quickly shifting in Beijing’s favor,” Helms said, reflecting the propaganda line of the self-styled “Blue Team” China-bashers at the Pentagon and in the Republican congressional staff offices, who are intent on maintaining the ideology — and the hefty defense budgets — of the Cold War era. “Because of the Clinton Administration’s neglect, Taiwan’s self-defense capabilities are not keeping up with Beijing’s rapid military modernization,” Helms claimed. “It is imperative that we act quickly to reverse the decline. . . . Okay, we must engage China. But Beijing also must be made to understand that its avenues to destructive behavior are closed off, and that Taiwan will have the means to defend itself.” The annual congressional evaluation of Taiwan’s defense needs, under the Taiwan Security Enhancement Act, will occur in April or May, providing grist to the mill of the Blue Team ideologues for a “Taiwan debate.”

Helms said, “Our challenge in the start of this new millennium — and the start of this new administration — must be to consolidate the democratic advances of the last ten years, while increasing the pressure on those who still refuse to accept the principle that sovereign legitimacy comes from the consent of the governed.”

Assisting that new “light” in Helms’s “democratic fir-

mament,” is Mexico’s President Vicente Fox, a number-one priority for Helms. “President Fox and President Bush already share a constructive vision for dealing with the problems that challenge both of their countries. Working together, we can secure our border, discourage illegal immigration, and strengthen our nation’s second-largest trading partner by helping President Fox rejuvenate Mexico’s economy.”

### An Aging Cold Warrior

And, what to do about Fidel Castro—who is threatening to outlive Helms? The Clinton Administration, with the help of Vatican diplomacy, made some efforts to end the Cold War-era embargo against the island enclave, but without success. “With the Bush election,” Helms crowed, “the opponents of the Cuban embargo are about to run into a brick wall on the other end of Pennsylvania Avenue.” It has not gone unnoticed by the Senator, nor by the incoming President, that Bush made a significant showing in Florida only thanks to the support given him by the Cuban refugees centered in Miami. Payback time may now be near. “With the embargo finally off the table, the Bush Administration has a golden opportunity to develop a new Cuba policy. The model for such a new Cuba policy should be the successful policies that the Reagan-Bush Administration used in the 1980s to undermine Communism in Poland,” Helms said. “Come Jan. 20, I intend to work with the Bush Administration to do for the people of Cuba what

the United States did for the people of Poland 20 years ago. . . . And I will make a prediction here today: Before his term is up, President Bush will visit Havana—to attend the inauguration of the new democratically elected President of Cuba.”

As for Iraq, another issue which will be on the front-burner for the Bushmen, Helms’s message is simply: Saddam Hussein must go! “Nothing will change in Iraq until Saddam Hussein is removed from power,” Helms said. “I look forward to working with President Bush to implement effectively the Iraq Liberation Act [and] help the people of Iraq get rid of Saddam Hussein.”

Regarding Eastern Europe and Russia, Helms demands NATO membership for the Baltic states in 2002. “With the collapse of Communism, those nations finally achieved their rightful independence from Russian occupation and domination. Yet Russia still looms menacingly over these countries. In looking at the current Russian government, one gets the distinct impression that the Russian leadership considers Baltic independence to be a temporary phenomenon. That is an impression that the Russians cannot be allowed to long entertain.”

Anyone listening to the words of the “gentleman from North Carolina,” would do well heed the words of the ancient Greek playwright: “Whom the gods wish to destroy, they first make mad.” Because the Helms foreign policy agenda is the type of madness that leads to wars.

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# Four Decades of ‘Crisis Management’: Precedents for Incoming Bush Team

by Edward Spannaus

Two months into the new Reagan-Bush Administration, on March 22, 1981, the *Washington Post* ran a front-page story with the headline: “Bush To Head Crisis Management.” The article reported that after weeks of bureaucratic in-fighting, “it has been decided that Vice President Bush will be placed in charge of a new structure for national security crisis management. . . . This assignment will amount to an unprecedented role for a vice president in modern times.” And the article noted that during the Carter Administration, “the crisis management structure was chaired by Zbigniew Brzezinski, the National Security Adviser.”

The *Post* article went on to say that Bush would chair meetings in the White House Situation Room in times of crisis; these meetings were to include the Secretaries of Defense and State, the CIA Director, the National Security Adviser, and top White House officials.

Interestingly, the lead article of the *Washington Post* that day, adjacent to the article on Bush and crisis management, was on the crisis in Europe, and it began by reporting that “President Reagan’s National Security Adviser, Richard V. Allen, said yesterday that the Western alliance is threatened by a ‘grave economic crisis’ in Western Europe” and by the revival of pacifism in Europe.

To help in understanding the danger today of the imposition of a “crisis-management” regime utilizing dictatorial, or rule-by-decree methods, by the new Bush Administration, it is useful to examine some of the precedents for this in recent American history. Within the past 40 years, plans for martial law, rule by decree, and even suspending the Constitution, have been on the books—under conditions far less severe than the financial and economic collapse which the incoming George W. Bush Administration will face.

## 1960s: Plans For Martial Law

Perhaps the best known, at least in earlier decades, were the plans for the imposition of martial law which developed during the civil disturbances of the 1960s, with the violent rioting in major American cities, and mass demonstrations by the civil rights and anti-war movements.

Federal troops had been deployed a number of times in 1962-63 in the South in response to violence-directed against

civil rights protesters, or to enforce school desegregation. But before long, the use of the military took on a much different character.

In 1963, the Joint Chiefs of Staff designated the Chief of Staff of the U.S. Army to be in charge of civil disturbance matters, and the Continental Army Command was made responsible for the selection and deployment of troops in such situations.

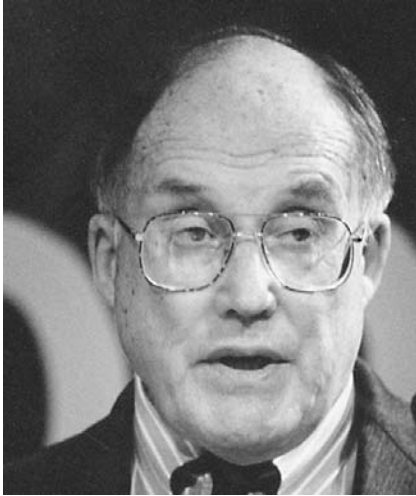
The formal military command for dealing with domestic civil disturbances was called CINCSTRIKE (Commander-in-Chief, U.S. Strike Command), headquartered at MacDill Air Force Base in Florida (now headquarters for the U.S. Special Operations Command). Planning for the CINCSTRIKE operation took place in the U.S. Intelligence Board, consisting of representatives of all U.S. intelligence agencies, but heavily weighted toward the military intelligence services.

Between 1965 and 1967, there were 108 major riots and disorders, with the largest number in 1967. National Guard forces were deployed 36 times during this period; U.S. Army troops were deployed once, in Detroit, and were pre-positioned for possible deployment a number of other times.

By 1967, the Army stepped up both its planning, and its intelligence-collection activities, involving extensive surveillance and infiltration of radical and protest organizations. Contingency plans were drawn up for possible commitment of Federal troops in 25 cities simultaneously. Among the better known of the plans for military takeover of specific areas, was “Garden Plot”—technically known as CINCSTRIKE OPLAN 563. A domestic war room, and 24-hour-a-day monitoring of civil disturbances were components of “Garden Plot.”

From around 1967 forward, the man in charge of intelligence gathering was Maj. Gen. William P. Yarborough, the U.S. Army Assistant Chief of Staff for Intelligence (ASCI).

Yarborough had often expressed the view in the mid- to late-1960s that the United States was on the verge of revolution, and more recently he was reported to have said that it was time for the American people to be told how close America was to civil war in the 1960s, and how extensive was the military preparation for this.



*Current Chief Justice William Rehnquist was, in the 1960s, one of the Nixon Administration's key officials planning for "qualified martial law" against civil or economic unrest.*

Yarborough does not appear to have been alone in this view. For example, the Department of the Army's Civil Disturbance Plan, published in February 1968, warned about civil disturbances beyond the control of local and state authorities, arising out of the anti-Vietnam War movement and the civil rights movement. These could lead to "violent attacks upon the social order," and, over time, could lead to "a situation of true insurgency should external subversive forces develop successful control of the situation."

"Federal military intervention may be ordered to save life and property, alleviate suffering, and restore law and order," the plan stated.

In May 1968, Yarborough's office issued an Information Collection Plan for the Army which warned that "purveyors of violence" were exploiting the "anti-war and racial movements," with the aims of "social disintegration, chaos, violence, destruction, insurrection, and revolution."

After the first of many public exposures in early 1970, Congressional hearings began, and the Army intelligence collection program began to be shut down. Congressional hearings were continued in 1971, and eventually fed into the post-Watergate Congressional investigations of U.S. domestic intelligence operations in 1975-76.

### **Rehnquist: 'Qualified Martial Law'**

Lest you think that this is all ancient history, consider the following: One of the key officials in the Nixon Justice Department, involved in planning and coordination with the Department of Defense regarding civil disturbances, was the man who is now the Chief Justice of the U.S. Supreme Court: William Rehnquist.

A review of civil disturbance planning, compiled by the General Counsel of the Department of the Army, cited a March 1969 memorandum by "Bill Rehnquist," described as "the first formal draft of the Civil Disturbance Plan."

That same year, in a public speech, Rehnquist described

anti-war protesters as "the new barbarians," and he urged: "We must be prepared, if necessary, to devote whatever energies are necessary, at whatever sacrifice to private gain or pleasure, to see that [the] essential values of our system are maintained."

After the mass arrests of protesters in May 1971, Rehnquist argued for the suspension of civil liberties in civil emergencies. "The doctrine which there obtains," he said, "is customarily referred to as 'qualified martial law.' In that situation, the authority of the nation, state or city . . . to protect itself and its citizens against actual violence or a real threat of violence is held to outweigh the normal right of any individual" to insist on his constitutional rights when arrested.

As the head of the Justice Department's Office of Legal Counsel (a position later occupied by Antonin Scalia), Rehnquist frequently appeared on Capitol Hill to defend Nixon Administration policies of domestic wiretapping and surveillance, no-knock police entries, and preventive detention. One scholar described Rehnquist's role in the Justice Department as "the resident legal theorist who finds within the crevices of constitutional law ample justification for whatever the President has wanted to do."

It is also useful to note, that the surveillance programs run by the military and the FBI in that period, were also coordinated with private business and fundamentalist religious organizations.

### **1970s: The Creation of FEMA**

After the 1960s military plans for martial law were shut down, new mechanisms were created during the 1970s, which culminated in the Reagan-Bush "crisis management" and "emergency preparedness" programs of the 1980s.

Planning for new forms of authoritarian rule began just as the old military/intelligence operations were being exposed and shoved back into the file cabinets. Two centers of preparations for what were expected to be two decades of crisis, were the New York Council on Foreign Relations (CFR) and the Trilateral Commission.

Zbigniew Brzezinski, soon to become President Carter's National Security Adviser, directed the Trilateral Commission's study on the "ungovernability" of modern democracies in the mid-1970s, which produced the book *The Crisis of Democracy*—predicting the "post-industrial" decline of democracy in Europe, Japan, and the United States. "This pessimism about the future of democracy has coincided with a parallel pessimism about the future of economic conditions," the report said.

Samuel Huntington, of more recent "Clash of Civilizations" fame, was a co-author of the Trilateral report, and he was also a project director of the CFR's "1980s Project"—which mapped out the "controlled disintegration" economic policy, a policy to be carried out by Carter's appointee to head the Federal Reserve, Paul Volcker.



*Trilateral Commission provocateur Samuel Huntington, author of the “Clash of Civilizations” doctrine justifying warfare in the Mideast and Asia, was also the originator of FEMA.*

Out of these two projects came, among other things, the creation of the Federal Emergency Management Agency (FEMA), during the Carter Administration. FEMA was created under Presidential Review Memorandum (PRM) 32, with the mandate to maintain the “continuity of government” during emergency conditions. It was Samuel Huntington, as coordinator of security planning for the Carter-Brzezinski National Security Council, who actually drafted the Presidential Review Memorandum which created FEMA.

### **1980s: Reagan-Bush ‘Crisis Management’**

These Carter Administration measures set the stage for the creation of an extensive and tightly run “crisis management” structure in the early years of the Reagan-Bush Administration, as follows:

1. As described in the *Washington Post* article cited above, there was a brawl in the first few months of the Administration, between George Bush and Secretary of State Al “I’m-in-charge-here” Haig, over the control of crisis management. By March 1981, Bush had already been chosen to chair Situation Room crisis meetings, although the Presidential directive formalizing this had not yet been adopted. This was a reference to the Special Situation Group (SSG), the status of which was formalized in December of that year (see below).

2. On Dec. 4, 1981, President Reagan signed Executive Order 12333, which designated the National Security Council (NSC) as “the highest Executive branch entity” for review, guidance, and direction of *all* foreign intelligence, counterintelligence, and “special activities” (i.e., covert operations). This effectively put the NSC in charge of the CIA, military intelligence, special operations, and so on. This did not mean that the President’s National Security Adviser would assume

this charge, but the NSC staff structure—which is not a staff for the cabinet-level National Security Council, but for the White House—over which Bush increasingly assumed control.

A little-noticed provision of EO 12333 gave the CIA the exclusive conduct of “special activities” (covert operations), “unless the President determines that another agency is more likely to achieve a particular objective.” This, for the first time, officially opened the door for assigning covert operations to the NSC staff.

Furthermore, in a provision which was almost the “charter” for Bush’s secret government, Section 2.7 of EO 12333 permitted U.S. intelligence agencies to enter into secret contracts for services with “private companies or institutions.”

3. On Dec. 14, 1981, National Security Decision Directive Number 3 was signed. Entitled “Crisis Management,” it affirmed the existence of the Special Situation Group (SSG), which, it said, would be “chaired by the vice president,” and assigned to the SSG responsibility for crisis management. “Crisis Management” was defined as encompassing “a national security matter for which Presidential decisions and implementing instructions are required more rapidly than routine interdepartmental NSC staff support provides.” This formalized George Bush’s control.

4. On Jan. 12, 1982, NSDD-2 was issued, which formalized the National Security Council structure. It confirmed the existence of a series of Senior Interagency Groups (SIGs) for foreign policy, defense policy, and intelligence—thus reducing the power of the Secretary of State and other department heads.

5. On May 14, 1982, the first phase of the Bush takeover was completed, with the issuance of an extraordinary memorandum entitled “Crisis Pre-Planning,” by the National Security Adviser. Citing the authority of NSDD-3, this memorandum established an interagency, standing Crisis Pre-Planning Group (CPPG) subordinate to the SSG. The CPPG was created as a *standing* body, which would meet regularly, and develop plans and policies for the SSG.

The SSG-CPPG, under the direct control of the vice president, was given sweeping powers, giving it control over *any* area in which a *potential* crisis could emerge, and the authority to develop *preemptive policy options* for dealing with it.

This SSG-CPPG structure, according to contemporaneous documents, operated on the same level as the National Security Council, and was *above* the Secretary of State. But, in reality, it actually superseded the National Security Council. Secretary of State George Shultz vigorously protested—but was overridden.

It is worth noting that the May 12, 1982 memorandum directed each participating agency to provide the name of its CPPG representative to the CPPG coordinator—a Marine lieutenant colonel assigned to the White House named Oliver North, who was deeply involved in FEMA-type emergency planning at the time.



## A Domestic Dictatorship

Developing side-by-side with this White House crisis-management structure, was the “Continuity of Government,” or “emergency preparedness” program—also under George Bush’s control. The *Miami Herald*, in 1987, called the Continuity of Government program “a virtual parallel government,” and reported that it included a plan “to suspend the Constitution in the event of a national crisis.”

A *New York Times* article, on April 18, 1994, described the “Doomsday Project” as involving more than 20 highly classified “black programs,” in military and intelligence agencies; it also involved private companies run by retired military and intelligence personnel. The *Times* reported that, during the Reagan Administration, “the project was supervised by Vice President George Bush.”

Although very little has ever been disclosed about this program, one source is Oliver North, who, because of his later notoriety in what became known as “Iran-Contra,” took the opportunity to write a self-serving autobiography describing some of this.

North had been detailed to the National Security Council staff in August 1981. In his autobiography *Under Fire*, North describes “my first major assignment at the NSC” as involving contingency plans for enabling the President and the country’s leadership to continue to function and communicate in the event of nuclear war or other extraordinary disaster. North calls it simply, “The Project,” and says that this was “where I came to know George Bush.”

A public version of the same operation went under the label of “emergency preparedness,” and was the subject of an earlier Presidential directive, NSDD-47, signed in July 1982, in which North was also deeply involved. This revolved around FEMA, and included a secret interagency “continuity of government” committee made up of about 100 top government officials.

The first major exposure of this project was published in 1987, by the *Miami Herald*. “Lt. Col. Oliver North,” reported the *Herald*, “helped draw up a controversial plan to suspend the Constitution in the event of a national crisis, such as nuclear war, violent and widespread internal dissent, or national opposition to a U.S. military invasion abroad.”

The article reported that North assisted FEMA from 1982 to 1984 in revising contingency plans for dealing with nuclear war, insurrection, or massive military mobilization. North was involved in planning and running “readiness” exercises, which utilized scenarios involving domestic protests over U.S. military adventures abroad, or massive social unrest due to economic depression conditions following a global financial collapse.

It has been reported that then-CIA Director William Casey designated Charles Allen as the CIA’s representative to the COG project; Allen has been quoted as saying—perhaps somewhat whimsically—during a COG meeting: “Let’s see now. Our job is to throw the Constitution out the window.”

During the congressional Iran-Contra hearings in 1987, the issue of the “continuity of government” project came up in the following rather startling manner:

**Rep. Jack Brooks:** Colonel North, in your work at the NSC, were you not assigned at one time to work on plans for the continuity of government in the event of a major disaster?

**Chairman Sen. Daniel Inouye:** I believe the question touches upon a highly sensitive and classified area. So may I request that you not touch upon that, sir?

**Representative Brooks:** I was particularly concerned, Mr. Chairman, because I read in the Miami papers and several others that there had been a plan developed by that same agency, a contingency plan in the event of emergency that would suspend the American Constitution, and I was deeply concerned about it and wondered if that was the area in which he had worked. I believe that it was, but I wanted—

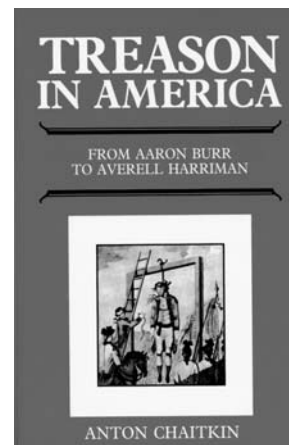
**Chairman Inouye:** May I most respectfully suggest that that matter not be touched upon at this stage? If we wish to get into this, I’m certain arrangements can be made for an Executive Session.

**Brendan Sullivan** (North’s lawyer): Well, I must say, the inferences from that statement are ridiculous.

**Chairman Inouye:** We’ll decide whether it’s ridiculous or not.

## Treason in America

From Aaron Burr To Averell Harriman



By Anton Chaitkin

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# A Market Crash Might Save Your Family

There is the story about the young executive of an "IT" firm who sat in his office one afternoon, hoping the news would come through that he'd lost his job. He had put aside his concern over having no income, because he was convinced that the hoped-for merger in which he'd be laid off, would raise the company stock enough to make a lot of money on his stock options. His wife, perhaps thinking of their young children, was not so sure, but she wouldn't let on about it.

And then there's the even more up-to-date tale of the Californian who sat in *his* darkened office one afternoon while the power was off, counting the savings on the company's electricity bill, while his employees went off to their darkened homes to count their, smaller savings there. "If only," thought this executive, "the company had some propane stored, or an electricity *contract*, we could sell it and really make a killing!"

It is reported that when Federal Reserve Chairman Greenspan sat down for crisis meetings with California officials in December, his advice was to "just let the market do its work." Now, after a month of watching "the market" hit with the destructive force of a hurricane, no leading public official, either in California or in Washington, has yet been able to pull the trigger and say, "re-regulation." Even those officials now denouncing deregulation as a failure and a disaster, have not, with the same breath, said, "Let's re-regulate."

So we have the simultaneous spectacle of the Germans, the inventors of fine meats, clamoring to give up meat and string up the farmers who grow it for them; and Americans, with the world's most electric-power intensive economy, shutting off their own lights, as the legislators and citizens of California strove mightily to do all during the "gay '90s," and finally have succeeded. There is no question who is acting the greater fools.

California is teaching the nation the raw truth of what Lyndon LaRouche insisted, in his forecasts of this

economic breakdown, during the later 1990s: The higher Greenspan's stock markets soar, the greater the destruction of the American economy, and the worse off the foolish investors in those markets are. The actions taken to drive up the "shareholder value" of those markets, directly destroy human lives.

Never have the stocks of those conglomerates which produce and sell natural gas, electricity, and so forth been higher, even amid the Nasdaq collapse, than now! And never has the United States, since the darkest days of the Depression, been closer to a generalized energy crisis, with people freezing to death, as now in Russia, and with "Third World"-style daily blackouts. More, the now-desperate attempt led by Greenspan to keep the markets from collapsing, has triggered hyperinflation, and demands outright falsification of the employment and inflation statistics, robbing tens of millions of people of cost-of-living increases. And worse still, public officials who are afraid of "the markets' reaction," hold back from doing what they publicly acknowledge must be done.

It was not "the markets" that tamed the Colorado and the Columbia rivers, transformed the Tennessee, strung transmission lines out into the rural areas and drove forward the irrigation and power systems which made California, for example, the model it became. That was done by Franklin Delano Roosevelt's nation-building approach as President. LaRouche's leadership demands the country return to that approach, in which the principle of the general welfare, not "shareholder value," governs.

The markets, like their "master" Alan Greenspan, are finished. The fall of these superinflated asset markets on Wall Street is not a "loss to investors"—it is a gain for the 80% of Americans whose conditions of life are, and have been in decline. Let them collapse and, as LaRouche has recommended, come back and breathe some of the fresh air of reality.



# STORM OVER ASIA

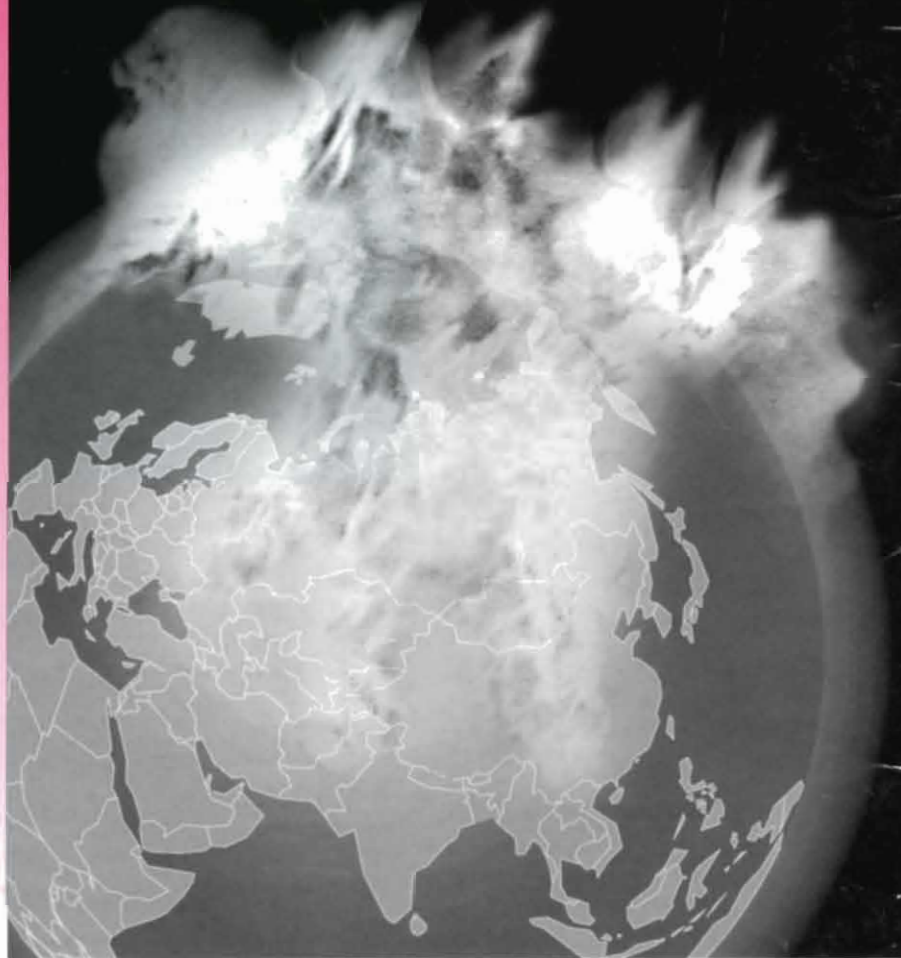
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