

# EIR

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U.S. State Budgets Are Melting Down  
What Congress Does to D.C., It Will Do to the U.S.

**LaRouche: Launch a Sudden  
Economic Recovery**





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## From the Associate Editor

The U.S. media spin-doctors are telling you that the “turmoil” on the stock markets is ending, and the party is soon going to begin again. Even more incredible, an opinion poll was released, saying that most Americans are pleased with President Bush’s performance so far—that he is not turning out to be as bad as they expected. (I leave you to judge whether the pollsters are lying, or whether the American people are really that stupid.)

Welcome back to reality: Your *EIR* has arrived!

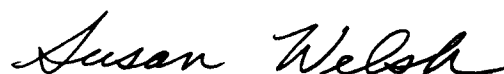
In our tradition of presenting to our readers, not “current events,” but *current history*, we document in this issue:

- The deepening economic and financial collapse, from Argentina and Brazil, to Indonesia and Japan, as well as from California to New England. In our *Feature*, Lyndon H. LaRouche, Jr. tells what needs to be done to prevent a further descent into the maelstrom, and to put into motion a recovery program for the next quarter-century. In *Economics*, LaRouche further develops the crucial underlying scientific issues required for such a program to succeed, in “The Vernadsky Strategy.” We also reprint an article by Edward Spannaus on the history of the American constitutional principle of the general welfare: the axiom upon which a global recovery program must be based.

- The drive toward war, even nuclear war, on the part of the lunatic administrations of George Bush and Ariel Sharon. In *International*, we analyze the rapid deterioration of the political situation in the Mideast, and LaRouche contributes “The Insanity of Bush and Sharon: The Bentham Syndrome,” as well as a memorandum, “Nuclear War Now?”

- The fight for the general welfare in the United States, centered around the effort to get the U.S. Congress to buck KKK-Katie Graham and her financier cronies, and vote to save D.C. General Hospital, the only public hospital in the nation’s capital.

**Note to subscribers:** We are going to skip the May 11 issue of *EIR*, for reasons of production logistics. Next week, we will have a reduced issue, with breaking developments, available on our website ([www.larouchepub.com](http://www.larouchepub.com)). The next printed issue, #19, will be dated May 18. Subscribers will, of course, receive the full number of printed issues that they have purchased.



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## Americas Summit: Shotgun Marriage to Globalization

by Gretchen Small

Heads-of-state summits often contain more window-dressing than substance, but the Third Summit of the Americas, convened in Quebec City April 20-22, had the quality of the theater of the absurd. Thirty-four Presidents and Prime Ministers gathered around the rotting corpse of globalization, to announce their official betrothal to a hemispheric Free Trade of the Americas Agreement (FTAA), which, they proclaim, will allow them to better enjoy the corpse's future. Some wrangled over the date of the wedding and the terms of the dowry, but no one had the gumption to mention publicly the stench rising from the corpse, decomposing ever more rapidly even as they spoke.

It was truly a pathetic scene: The Finance Minister of one of the leading summit participants, Argentina, spent the same weekend scrambling to avoid defaulting on its \$150 billion public debt. Central Bank officials in Brazil, with a public debt more than double Argentina's, began preparing to do the same. It is the fourth time since December 1994 (when Mexico's debt exploded) that a debt crisis in Ibero-America threatens to "go systemic."

For years, it has been insisted that gaining greater access to the United States' market under "free trade," will assure the cash flow to end these debt crises. Already, nearly 60% of all Ibero-American exports are sold in a United States market upon which every other country in the world also now depends. Poof! The U.S. Commerce Department confirmed April 25 what governments already knew from their own shrinking export revenues: that the U.S. market is imploding. The dollar value of consumer and capital goods imported by the U.S. fell again in February with a record 4.4% drop. With March and April dominated by announcements of record first-quarter corporate losses and job cuts by the thousands, only a Coke salesman like Mexican President Vicente Fox could still insist that the U.S. market will pick up "any day now."

At the same time, for all the desperate liquidity pumping by Federal Reserve Chairman Alan Greenspan et al., the global "wall of money" which kept Brazil from defaulting in 1999 is proving too weak to stop national defaults from spreading across the globe. The head of the private bankers' Institute of International Finance, Charles Dallara, estimated on April 17 that net private capital flows to the developing sector will be \$60 billion less this year, at \$150 billion, from the average \$210 billion a year which entered from 1996-2000. Does anyone believe that the U.S. Treasury and the International Monetary Fund can bail out Turkey, Argentina, Brazil, Indonesia—and the Mexicos, Polands, etc. which can explode, also, at any time?

### Tick, Tick, Tick. . .

Brazil's was the only government which dared hint at reality, going into the summit. In an April 16 press conference in Brasilia, Foreign Minister Celso Lafer said President Fernando Henrique Cardoso considered it more urgent for Ibero-America that the summit discuss the region's financial crisis, than debate the "advantages" of free trade. Cardoso will raise the problems caused by the "extreme volatility" of financial flows, he said.

As the summit opened, Argentina's finances were unravelling. The \$41.5 billion bailout package put together by the IMF in December 2000, had proven worthless. Five billion dollars, at least, left the country between the end of February and April 16. A public, international debate over when, not if, Argentina would default, was set off by an opinion column by Columbia Business School Prof. Charles Calomiris, published prominently in the *Wall Street Journal* April 13. Under the headline, "Argentina Can't Pay What It Owes," Calomiris pointed out that to meet interest payments alone, Argentina would either have to cut its imports by half, permanently

(politically not feasible), or increase its exports by half (unlikely!). He argued that the sooner Argentina's debt is restructured, and this must include an orderly write-down of some 25%, the less the regional damage.

The situation was such, that President George W. Bush personally assured the summit's closing press conference that his team was watching the Argentine situation "closely," prepared to throw in either bilateral aid or from the international financial institutions.

Argentina's country-risk—the interest points above U.S. Treasury-bill rate which it must pay to borrow money—hit an astronomical 13% on April 25. Finance Minister Domingo Cavallo, with *Crédit Suisse First Boston's* David Mulford, concocted a new scheme, a mega-swap of up to \$20 billion in short-term debt for new longer-term bonds, to put off the day of reckoning—with a hefty government-paid premium to get bondholders to go along, hiking the already-unpayable public debt yet further. Daniel Muchnik, economics columnist for Argentine daily, *Clarín*, pointed out April 22: No country in the world can send \$18 billion (6% of its GNP) a year out of the country in interest payments, profit remittances and dividends, while seeking financing for \$26 billion a year to cover amortizations, when its exports earn only \$28 billion a year. The debt will have to be written down.

If Argentina blows, Brazil may follow, an hysterical executive of Bear Stearns & Co. warned in a Letter to the Editor run April 25 in the *Wall Street Journal*. Look at the damage to Brazil's "debt dynamics" that the mere discussion of an Argentine default caused, he protested. This is already more than a "specter." Since the opening of the year, Brazil's currency, the real has lost 15% of its value. Every drop in the value of the real, raises the cost of Brazil's heavily dollar-denominated debt (the 5.7% devaluation in March increased the debt by over \$3 billion). The remedy adopted—to raise interest rates so as to entice in foreign capital—worsened the problem, as four-fifths of Brazil's public debt carries floating interest rates. The Central Bank's 0.5% interest rate rise in March, alone, increased the total debt by \$8.1 billion! Yet, on April 18, the same day Greenspan lowered the U.S. Fed rate, Brazil raised its interest rate another 0.5%. Again, to no avail. On April 25, Brazil's real closed at its lowest rate since its creation in 1994.

## **Brazil The Issue**

To that financial-economic reality looming over the delusory hemispheric free trade plans, was added the possibility that Brazil may, still, pull out of the FTAA process altogether. President Cardoso's tough speech to the opening session of the Americas Summit startled many. A Community of the Americas presupposes a recognition that "the historical paths of each people to mold their economic institutions can vary. There is no single thought which can dictate the course of nations. Free trade is one of those instruments," said Cardoso. Brazil welcomes the negotiations towards a FTAA, but "we will insist that free trade benefits should be equally shared by

all participants, that trade opening should be reciprocal, and that it should lead to the attenuation rather than the aggravation of the disparities that exist in our region." A pact which does not accomplish this, would be "irrelevant, or, in the worst case, undesirable."

Several years ago, Cardoso announced his "bet" that the future lay with globalization. But two fires are burning Cardoso's feet, however, which may shift his "bet." One is the recognition of global reality. "When the two largest economies in the world, Japan and the U.S., which represent 40% of the world's GDP, have a drastic reduction in their growth rates, of course this has implications for the rest of the world," Treasury Minister Pedro Malan told *Folha de São Paulo* April 25. It's not "reasonable or plausible that Brazil would remain immune."

The other fire is the building domestic opposition to the FTAA, ranging from São Paulo industrial interests, to a strong grouping within Itamaraty (the Foreign Ministry). The most outspoken of the latter group, Ambassador Samuel Pinheiro Guimarães, was just removed from his post as head of Itamaraty's Foreign Relations Research Institute, a move which resulted in gaining him more access to the national press. In several interviews and articles published before the summit, he warned that the FTAA is an instrument of "sophisticated neo-colonialism," a plan to negotiate a reduction in sovereignty. Brazil cannot develop as an independent nation under the FTAA, and it should stop seeking an "illusionary credibility" with the international financial community, which, in the end, will "limit the autonomy of its political economy," and most likely lead to a debt crisis as well.

More than one Brazilian journalist in Quebec City exclaimed when they heard Cardoso's summit speech, that it could have been written by Pinheiro. A television interview given on April 19 by a close friend of President Cardoso, Helio Jaguaribe, reveals the debate under way in Brazil. Calling the FTAA "national suicide" for Brazil, Jaguaribe warned that the country could "cease to exist" if the negotiations end badly. Brazilian companies will not be able to effectively compete with U.S. companies for the next 20 to 30 years, he said. This, Jaguaribe insisted, is also the point of view of President Cardoso, with whom he has discussed the FTAA several times. But because the government fears the heavy economic penalties which the U.S. superpower could inflict upon Brazil in a head-on conflict, the government has adopted the strategy of tying Brazil's participation to various conditions (elimination of U.S. non-tariff barriers to Brazilian products, for example) which it believes the United States cannot meet.

## **Beware Shotgun Weddings, Texas-Style**

As the architects of the looting scheme acknowledge, without Brazil, there will be no FTAA. Already, Brazil stalled the Bush team's effort to push up the final date for FTAA negotiations to be completed, to 2003. Because of opposition by Brazil, the final declaration coming out of Quebec City

commits the nations to complete the negotiations “by no later than” January 2005.

There are fatal flaws lurking in the Cardoso government’s stall strategy, however. As Pinheiro Guimaraes warns, it is an illusion for it to believe that Brazil can participate in the negotiations, and then freely decide at their conclusion if it joins the final pact or not; that ignores the dynamics of negotiations and the power of the U.S. political presence, he points out.

Like the North American Free Trade Accord before it, the FTAA is not intended to be a *trade* arrangement, but rather a political pact through which to strip the last remnants of sovereignty from the nations of the region, impose dollarization, and tear down what barriers remain against the looting of their natural and human resources, and the crushing of any independent technological capabilities, such as Brazil still has. Bush and his team made clear in Quebec City, the Anglo-Americans don’t intend to take “no” for an answer. U.S. Trade Representative Robert Zoellick told a pre-briefing on the summit on April 19, that bilateral trade accords designed to isolate Brazil and make an FTAA a foregone conclusion will go full steam ahead, because the Bush team still wants to “beat those deadlines,” and conclude an overall deal before 2005. “I’m sending a signal to the Brazilians,” Zoellick told the *Washington Post*.

The Quebec City summit, though surreal, was not without teeth. The final declaration signed by the Presidents contained a “democracy clause,” a big step forward towards turning “the summit process” into the centerpiece of a supranational regional government. Any “interruption of the democratic order”—a formulation which can be interpreted as wished—“constitutes an insurmountable obstacle” for any country so accused to participate in “the Summit of the Americas process.” The Presidents instructed their Foreign Ministers to draft an Inter-American Democratic Charter by June, in order to empower the Organization of American States (OAS) as the enforcer of such imperial “rule of law.” The Action Plan adopted at the summit mandates establishing a permanent OAS bureaucracy to enforce the summit process, with some media promising that the World Bank and Inter-American Development Bank will put \$20 billion behind the “process” over the next five years.

The Brazilian government would do well to learn the lesson of its last battle to defeat this drive to end sovereignty and establish a supranational government: the OAS-State Department’s overthrow of Peru’s President Alberto Fujimori in 2000. When Brazil put its foot down at the June 2000 OAS meeting, other Ibero-American nations rallied with it, and the drive was blocked, opening the door for the exciting discussions of South America’s development at the first-ever Summit of South American Presidents. Because the Cardoso government espoused the glories of democratization and globalization, when the orders came down in October that Fujimori had to go, period, Brazil buckled.

## White House Changes Tune In Turkish Crisis

by William Engdahl

The months-long banking and political crisis in Turkey has forced the Bush White House to make an apparent policy about-face on the issue of bailing out troubled “emerging market” countries. On April 18, President George W. Bush convened an emergency meeting to discuss the deteriorating economic and social crisis in Turkey, which included Secretary of State Colin Powell, Security Adviser Condoleezza Rice, Treasury Secretary Paul O’Neill, and Bush. That discussion resulted in a 180-degree shift from earlier statements by Treasury Secretary O’Neill opposing the kind of International Monetary Fund (IMF) bailouts of countries such as Thailand or Russia which had been made in 1997-98.

According to reports in the April 20 *Wall Street Journal*, the White House concluded that, given Turkey’s strategic importance in the eastern Mediterranean, and its importance as a NATO member country on the border of the oil-rich Caspian Sea region, the United States will put significant pressure on the IMF to come up with billions of dollars more, if necessary, to stabilize what has become a national emergency situation. Following the talks, Turkish Prime Minister Bulent Ecevit said that Bush had phoned him to assure him of U.S. support.

Five days later, on April 25, Deputy IMF Managing Director Stanley Fischer told press on the eve of the IMF annual meeting, “Turkey deserves the support of the international community, and it will get it.” Turkey’s new Economics and Finance Minister, Kemal Dervis, a longtime World Bank official, has asked for another \$10-12 billion from the IMF and World Bank, on top of the December IMF-led bailout of \$11 billion, claiming it is necessary to implement a draconian series of “reform” and austerity measures to get Turkey back on the “track of growth and stability.”

News of an open split between Prime Minister Ecevit and President Ahmet Sezer in February over the alleged pace of the government’s anti-corruption drive, triggered a full-blown currency crisis as foreign banks liquidated Turkish liras for dollars, and fled. The lira, since mid-February, has fallen more than 80% against the dollar. Many Turkish companies had borrowed in dollars, and now find they are unable to repay the dollar loans.

The February crisis led the IMF to freeze further cash disbursements to Turkey, aggravating the domestic economic crisis. On Feb. 22 the Ecevit government was forced to let the lira float free against the dollar and euro, after a



liquidity crisis forced the Central Bank to spend \$7.6 billion in one week in a futile bid to defend a fixed lira, pushing overnight interest rates on government bonds to 6,200% in the process. The subsequent 80% devaluation of the lira has led to a new wave of banking crises, as banks were forced to repay some \$15 billion in short-term dollar loans in a deflated lira currency.

More than 500,000 Turkish workers have been thrown out of work in the last two months of spreading crisis. For those fortunate still to have work, the soaring inflation has forced many Turkish companies to slash wages 30-40% just to stay in business.

### **Demonstrations Denounce IMF**

The government's latest economic austerity plan, announced on April 16 in a desperate bid to get more international money, triggered more than a week of street demonstrations and protests across the economically devastated country. Trade unions and thousands of businessmen took to the streets to protest the collapsing lira, which is making imports prohibitively costly; soaring interest rates; and the hundreds of thousands of recent layoffs. More than 200,000 marched in the streets, many carrying signs saying, "IMF: Get Out! This is our land," and "IMF Equals Hunger."

The traditionally conservative umbrella organization of businessmen, the Turkish Union of Chambers, which represents hundreds of thousands of businessmen in trade and industry, is calling on the Ecevit government to resign and call new elections. Only six months ago Ecevit was widely regarded as the best hope for stability and reform by most Turks.

The Union of Chambers released a statement calling the current crisis "the worst in the country's history." "A fire has burned in every corner of Turkey," it read. "The slightest spark could mean the end of Turkey — nobody will be able to stop the explosion." The business group is demanding wholesale cleanout of an admittedly corrupt, crony-tied banking system, and privatization of various state telecom and transportation companies to raise cash for the budget.

The new government austerity plan, part of a 15-point precondition to get new IMF aid, calls for severe 9% budget austerity cuts, and a public hiring freeze. Among the draconian government spending cuts are included \$19.5 billion in planned arms purchases by the Turkish military. The Turkish military, since the reforms of Kemal Atatürk in the early 1920s, had been regarded as the prime bulwark of Turkish stability.

In order to cut down an expected inflation rate of 57% this year, the Dervis austerity plan calls for major privatization of Turkish Telecom and the national airlines, as well as other state enterprises. The cash from the privatization sales, as well as much of foreign credits hoped for, will finance the costs of bankruptcy reorganization of the state-owned banking sector. This bank privatization process, with four state banks de facto bankrupt, will cost an estimated \$20-40 billion to cover bad



*The plunge of the Turkish lira since February has brought the nation's banking system to the point of collapse, unions and businessmen both into the streets against the IMF — and seen a sudden turnaround by the Bush administration, which now wants a huge IMF bailout.*

loans, many allegedly tied to political payoffs.

Even without the cleaning up of the banks, Turkey's government faces an immediate payments crisis. Between now and June, the Turkish government must roll over \$10 billion worth of domestic bonds, or risk a wholesale collapse of the domestic banking system which had been propped up by its lucrative purchases of government bonds. In this grave situation, Moody's, the international credit rating agency, on April 20 downgraded Turkey's sovereign debt rating, a move which makes even less likely, that new private investors will risk investing in Turkey.

Further complicating the domestic unrest is a ruling due to come any day from the Constitutional Court aimed at banning the country's main opposition party, the Virtue Party. This Muslim party was forced out of government in 1997 by a nervous military. They hold some 20% of seats in the Parliament and their banning could unleash new waves of protest from the country's 65 million disenfranchised Muslims. Even without a ban on the opposition, a major scandal looms, which might force the resignation of a senior coalition partner of the Ecevit government. On April 24, State Security Court Chief Prosecutor Cevdet Volkan unveiled an indictment into a state energy scandal, "Operation White Energy." In the indictment, Energy Minister Cumhuriyet Ersumer was named along with 15 others on charges of graft, bribery, and misuse of office. The opposition Virtue Party and the True Path Party both have demanded the minister's resignation, adding to the popular mood of suspicion and distrust of the Ecevit government. If the IMF gives the hinted \$10-12 billion, it will guarantee an aggravation of the social and economic crisis in coming months, as the 15-point IMF conditionalities take effect.

# The Vernadsky Strategy

by Lyndon H. LaRouche, Jr.

April 26, 2001

As I have stressed repeatedly, there are only three present cases of national cultures which are capable of conceptualizing the initiation of global solutions for such current global problems as the presently accelerating collapse of the world's present financial system. Once again, these are the U.S.A., Russia, and the British monarchy. Given that Olympian tragedy popularly known as the U.S. Bush administration, only some combination of cooperating states of Eurasia which includes Russia and western continental Europe, is presently capable of cultivating the kind of initiative urgently needed today.

For reasons I shall emphasize here, the figure of biogeochemist V.I. Vernadsky, should serve as a key unifying figure, for the contribution of the science of Russia and Ukraine to the unified development of Eurasia as a whole. This program of Eurasian development, is to be regarded as the central feature of a global economic developmental perspective for both the Americas and Africa. Indeed, under present global conditions, such Eurasian development is indispensable for the survival of not only Africa, but also the nations of the Americas as viable nation-states.

Look at this first from the standpoint of the continuing issue of so-called "geopolitics," and then locate the marvelous implications of the Vernadsky legacy for both science and economy, not only for Eurasia, but for mankind as a whole.

### Geopolitics, Still Today!

The strategic issue within which I situate this discussion, is not, by itself, a new issue. Since approximately 1877, the British monarchy had always centered its geopolitical doctrine on ensuring the fostering of mutually devastating conflicts between Germany and Russia, as the central feature of its grand strategy. All important initiatives for the betterment

of humanity, since the U.S. Civil War, have centered upon implicit cooperation of the U.S.A. with key nations of continental Eurasia for the kinds of economic development associated with the policies of Benjamin Franklin, Alexander Hamilton, Friedrich List, and Henry C. Carey.

One should recall, that U.S. President Abraham Lincoln's defeat of the British monarchy's asset, the Confederate conspiracy, and the adoption of the U.S. economic model, by Russia, Bismarck's Germany, Japan, and others, in the aftermath the 1876 Philadelphia Centennial Exhibition, had created the conditions for building transcontinental railway systems, modelled on the U.S. precedent, within the Eurasian continent. This, for reasons I have detailed in earlier locations, was the prompting of the combined geopolitical and naval-development programs of the British monarchy over the period leading into Britain's orchestration of France and Russia for launching World War I against Germany, with support of such London assets as those faithful sons of the treasonous Confederacy, U.S. Presidents Theodore Roosevelt and Woodrow Wilson.

Similarly, at the close of World War II, when Britain had been reduced to the relative status of a second-rate power in the world, Britain, using both traditional Venetian methods, and British agents and agents of influence inside the U.S.A., orchestrated the creation of the nuclear conflict between the U.S. and the Soviet Union. Thus London was enabled to exploit the effects of the missiles-crisis, to bring about the post-missiles-crisis self-destruction of both of London's leading strategic rivals, leading to both the present Anglo-American form of world domination, and the present push of the world at large not only into the greatest financial collapse in history, but also the economic brink of a threatened, planetary new dark age.

Throughout 1861-2001, the central issue-in-fact of world policy, takes the present form of the choice: between an efficient commitment to the cooperative economic development among at least most of the peoples of continental Eurasia; or, world domination by a new form of the old imperial maritime power of Venice's financier oligarchy, an Anglo-American "new Roman Empire," ruled by the fist of a U.S. "dumb giant" deployed, like the former and present U.S. Presidents Bush, as a restive, brutish lackey to the British Empire.

The most comparable period in history, was a period closely studied by the great dramatist William Shakespeare. The menacing situation facing the world today, is most nearly comparable to the history of Europe through the long and ruinous royal reign of the Plantagenets, 1154-1485, from Henry II through Richard III.

This House of Anjou, as confederate of the imperial maritime power of Venice, played a leading part in the repeated ruin of Europe during that entire span. This role of the House of Anjou, and its role in "ultramontane" moves to crush out of existence the efforts, as under the Hohenstaufen, especially Frederick II, and Alfonso Sabio of Spain, to establish sover-



V.I. Vernadsky

eign nation-states, led inevitably into not only the New Dark Age of Fourteenth-Century Europe, but also such continuing horrors as the “Hundred Years War” and the “Wars of the Roses” within England itself.

This alliance of Venice with the House of Anjou, is to be compared with a similar affliction which struck Europe, in the form of the Habsburg-centered religious wars during the interval 1511-1648, a period sometimes fairly described by modern historians as “a little new dark age” in European history.

The key strategic fact to be recognized by all persons who do not wish to be rightly considered as either mentally ill, ignorant, or stupid, is that the world as whole, including the internal situation of the U.S.A., itself, is faced immediately with an historical crisis, comparable in its threatened implications, to the legacy of the long, imperial reign of the Plantagenets in sundry parts of Europe, at sundry times, and in England throughout that time. With the help of such creatures as Ariel Sharon and the “Clash of Civilizations” and related “Project Democracy” lunacies of Zbigniew Brzezinski’s Samuel P. Huntington, the world teeters precariously at the brink of a general outbreak of religious warfare like that experienced by Europe during the 1511-1648 interval.

It is not possible that the United States could survive a continuation of the present policies of the incumbent Bush administration. Either those policies, and any like them, are soon scrapped, for a return to something akin to the Franklin Roosevelt economic-recovery policies, or the economic self-destruction of the U.S.A. is soon inevitable. However, under that condition, a continued Anglo-American world domination of the type set into motion by the Thatcher-Bush policies of 1989-1991, would mean the virtually inevitable collapse of the planet as a whole into a new dark age as serious, or worse than that of Europe’s mid-Fourteenth Century.

## The Available Option

For as long as the U.S. Bush Administration continues its present, lunatic policy-trends, only in some circles in the United Kingdom, and in cooperation between President Vladimir Putin’s Russia and other states of continental Eurasia, is there any presently active potential for actually initiating the adoption of an effective alternative to the horrible consequences of what a continued Bush drift would mean for the world at large.

In the United Kingdom itself, even among many whose policies are not, shall we say, the best, there is a sense of dread of the implications of the sheer lunacy of the current U.S. administration, and of a U.S. Congress which continues to lie down, like craven opportunists, or even worse, before the Bush Administration’s and related demands.

More important is the keystone role of Russia in linking the vital interests of nations of western and central continental Europe to the matching interests of Central, South, Southeast, and East Asia.

To put the point as simply and also as accurately as brevity might desire, the real economy of western and central continental Europe, could not continue to survive without a relatively healthy German economy. Germany’s economy, in turn, could not avoid collapse, without substantial renewal of the relative weight of its former role as a technology exporter. None of these and related problems of continental Europe or Eurasia as a whole, could be brought under control, without a new system of credit, based upon the sovereign powers of states, to advance long-term credit for large-scale infrastructure-building and relevant other technological increase of the physical productive powers of labor throughout Eurasia in the large.

The methods for such a revival of the economy of Germany, and of continental Europe at large, are those which Dr. Lautenbach presented for adoption by a 1931 meeting of Germany’s Friedrich List Society, a proposal which, had it been implemented, could have prevented Hitler’s coming to power, and, thus, World War II as well. These are, essentially, the same principles expressed successfully by U.S. President Franklin Roosevelt. Those same approaches would work today, even under present European and U.S.A. economic and financial conditions, which, combined, are far worse than those underlying the crash of 1929-1931. It would merely require dumping every policy which either the Bush Administration or former Vice-President Al Gore would tolerate, at least, until now.

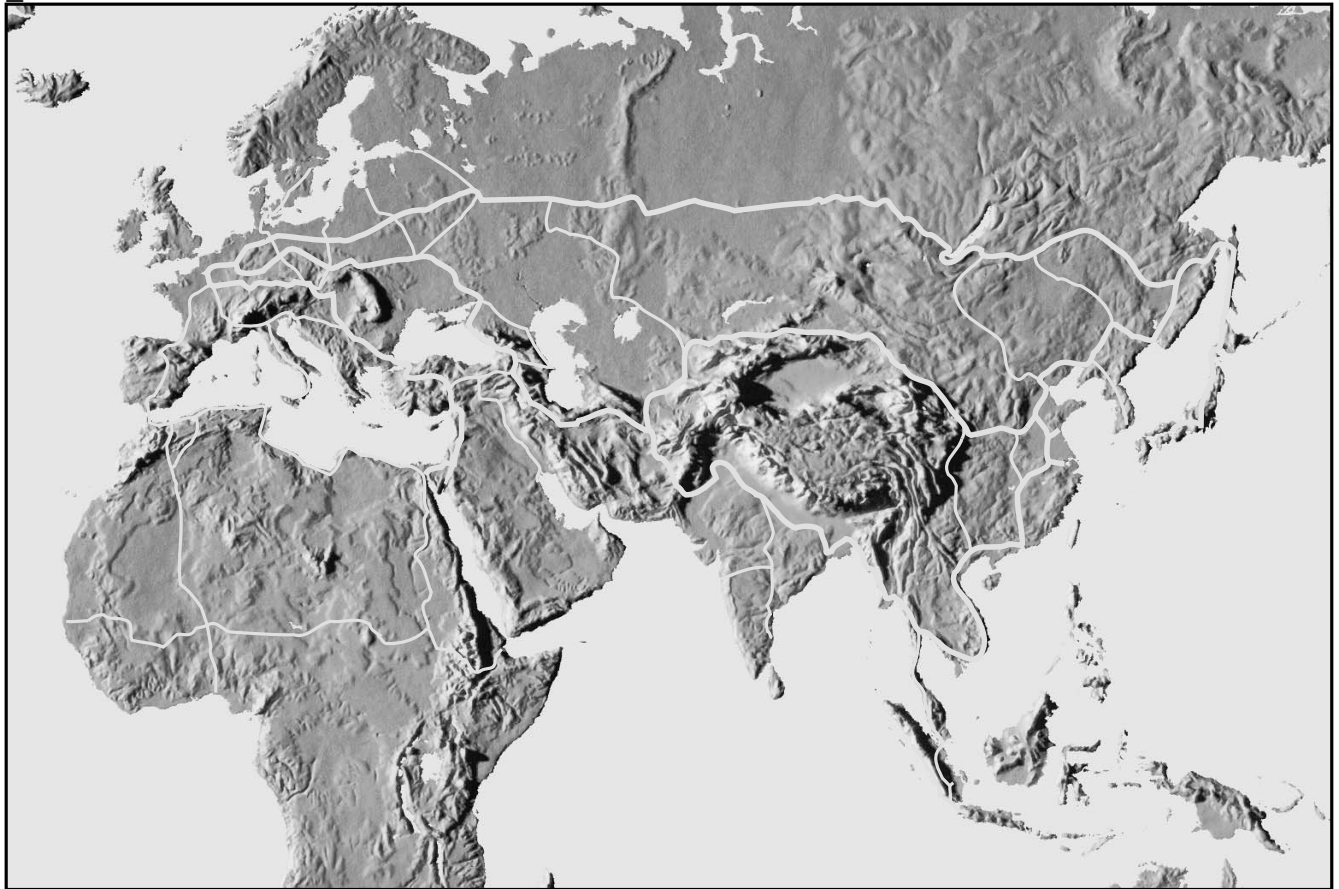
The general framework required to rescue nations such as those of continental Europe, from the otherwise inevitable, presently careening disaster, must be defined in terms of a system of fixed exchange-rates, capital controls, exchange controls, currency controls, and protectionist methods of price and trade agreements among the partner-nations. This means, of course, the abandonment of the recent and ruinous fads of “free trade,” “deregulation,” and “globalization,” for a return to the protectionist, or so-called “Hamiltonian” model of the sovereign nation-state. It means the large-scale reorganization of the aggregately never-payable present mass of world-wide financial obligations, a reorganization conducted under rules corresponding to the Franklin Roosevelt Administration’s notion of “Chapter 11” bankruptcy reorganization.

As if by gut-instinct, there is in Germany and other parts of continental Europe, a tendency in that direction, if not yet a willingness to go to the “extremes” which actually introducing a successful such economic-recovery for Europe would require. If Europe wishes to survive, it must go all the way, according to the conclusions which the situation demands of it.

However, as much as France pretends to exert true sovereignty on some selected occasions, the combined result of two world wars, the 1962 missiles crisis, and so on, is that no nation of western or central continental Europe has a present instinct for truly sovereign national-policy initiatives which might be contrary to the English-speaking powers. They think

FIGURE 10

**Topographical Map of Eurasia, with Some Main Development Corridors of the Future**



*The future cooperation of Eurasian nations in building “land-bridges” of modern transport and infrastructure, including across Africa, is the marker of what is called, in Vernadsky’s work, the action of the noösphere.*

within the self-imposed bounds of what they suspect they are permitted to think by their Anglo-American overlords. Their hearts may be in the right place, but they keep their fists in their pockets.

Enter Russia. The fact that western Europe can not survive the present trends, except through relevant long-term cooperation pivoted upon a willing role by President Putin’s Russia, and the fact that Russia, by its deeply embedded national-cultural instinct, is capable of thinking in terms of global solutions, gives to western continental Europe much, if not all of that degree of encouragement it otherwise lacks to proceed in service of its vital sovereign interests in these matters.

Similarly, as for western and central Europe, Russia is also crucial for cooperation among the states of East, Central, and South Asia, most emphatically. A group of nations, brought together through aid of triangular cooperation among Russia, China, and India, and thus bringing in most of the states of Asia, presents us with a reasonable prospect of well-grounded, long-term cooperation, where such cooperation

were otherwise virtually impossible to achieve. Under the presently onrushing economic-strategic conditions, in which the Anglo-American financier power largely evaporates, new options are likely to be put on the table, even successfully.

The possibilities of long-term Eurasian continental cooperation (including Japan, of course),<sup>1</sup> thus provide the keystone on which the possibility of a global economic recovery depends. Without that keystone, the situation of already ruined Africa is hopeless beyond description, and the situation of the nations recently assembled at Quebec City, hopeless as well.

I have emphasized, on this subject, in locations published earlier, that the development of the basic economic infrastructure of the territories of central and north Asia, including the tundra regions, is indispensable for the success of the kind of long-term global economic development I have proposed.

1. One, or two railway lines, from Siberia, Korea, or both, linking mainland Eurasia to the islands of Japan, would clarify that point.

As I have also stressed in such locations, to grasp what that development implies for practice, we must look at the required development of basic economic infrastructure through the eyes of the great biogeochemist V.I. Vernadsky.

As I have emphasized in such locations, we must recognize that what we call basic economic infrastructure, is an improvement in the biosphere beyond the capacity of the biosphere to develop and defend itself without human cognitive intervention. We must see the biosphere so improved by man, as representing what Vernadsky termed the “natural products” of human cognition produced as the qualitative improvements of the biosphere needed to develop the biosphere into the still qualitatively higher form, of a *noösphere*.

We must never think of development of basic economic infrastructure as a destructive intrusion upon the biosphere, but rather as a necessary improvement of the quality of the biosphere as a biosphere, and also a form of improvement which raises the biosphere to the higher level of being an integral part of the *noösphere*. Indeed, that rule, is not merely a defense of the urgency of developing and maintaining the biosphere through basic economic infrastructure, but, also, represents the rule by which we must govern ourselves in changing the biosphere through infrastructural development.

Although there is a tendency to limit the current proposals for infrastructural development to “A New Silk Road,” such a transportation link, by itself, will not meet the requirements for a general and sustainable upsurge in the economic development of Eurasia. What is required, rather than merely a “New Silk Road,” is a network of corridors of combined transportation, power generation and distribution, large-scale water management, and related changes, all along pathways of development of up to 100 kilometers width.

In that case, not only does economic growth along the transport route reduce the effective net cost of trans-Eurasian goods transport, to levels far below that of sea-borne transport. By such methods, what are presently thinly populated regions of central and north Asia are made more fruitful, and populous, but even what are presently, functionally desert areas, emerge as zones of economic development. Under those conditions, these regions of Asia become, because of their relationship to other, densely inhabited parts of Asia, the world’s greatest, richest frontiers for the immediate future’s economic growth of the planet as a whole.

When those opportunities are taken together with the natural resources of the area in which this development of infrastructure is to occur, Eurasian cooperation, pivoted on this perspective, becomes the great opportunity for Eurasia as a whole, and the economic driver needed for the development of Africa and the revitalization of the states of the Americas participating as partners of this venture.

The peculiar nature of the challenges this presents for broadly based development of basic economic infrastructure, brings the figure of Vernadsky to the fore, as a central scientific figure of reference for this Eurasia-centered cooperation as a whole.

## Where There Is Life, There Is Hope

At this point, focus attention upon two of the leading points which biogeochemist Vernadsky made on the way in which the Earth as a whole is organized naturally.

He emphasized the anomalous, but unavoidable evidence, that living processes produce measurable physical changes in non-living processes, changes which non-living processes themselves do not produce. He defined this as the biosphere.

He also emphasized, similarly, that the intervention of the human creative-scientific powers into the biosphere, produces measurable forms of physical improvements in the biosphere, which are not generated without such human intervention. He defined our planet, in which living processes transform non-living ones, and cognitive processes transform living processes, as a *noösphere*.

He emphasized the fact, that those experimentally distinguishable effects of living processes, which are not otherwise produced by comparable non-living ones, are *natural products* of living processes’ action upon the non-living. Similarly, the effects which only human cognitive action produces as improvements of the biosphere, are experimentally definable as *natural products* of human cognition.

With but one most notable, twofold omission, Vernadsky’s organization of his own and others’ experimental discoveries of anomalies and principles, into the form of a concept of the *noösphere*, represented a necessary revolution in the world’s way of thinking about scientific knowledge in general. Despite the referenced omission, to which I shall turn in due course here, the relevance of Vernadsky’s work to Eurasian development as a whole, has the following, relatively obvious, expressions.

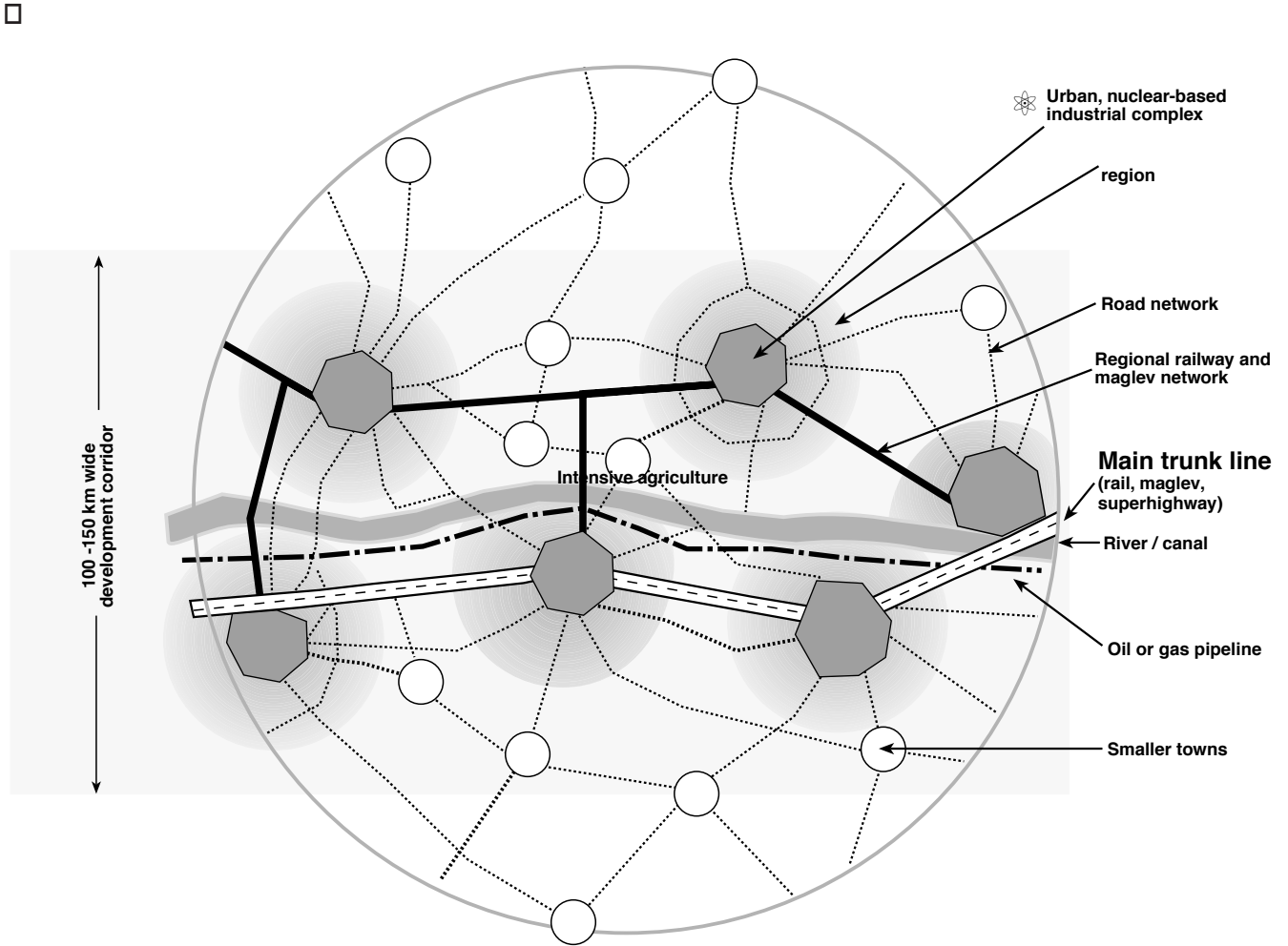
First, for reasons toward which I have pointed already, the depth and scope of the development of basic economic infrastructure and its included development corridors, is a challenge to scientific and well as ordinary economic notions of mastery of the biosphere, as itself part of a *noösphere*, beyond anything taken previously. Vernadsky’s revolutionary conception of the biosphere represents an important change, in depth, in the way policy-makers should think about both the biosphere and basic economic infrastructure as such.

Second, in developing the basic economic infrastructure of central and north Asia on the scale indicated, we are staking much, for the coming quarter-century and longer, on the wisdom of the choices before us. We must place a corresponding emphasis on accelerating fundamental and related scientific development along relevant new lines of investigation, already implicit in Vernadsky’s work.

Third, among the most important implications of Vernadsky’s work in this realm, is the way in which it forces us to pay attention to known, and previously unknown features of the physical principles which distinguish living processes from non-living ones. It is but one of the subsumed implications of this, that the world is confronted with the explosion of an emerging crisis in the control of infectious and

FIGURE 20

**Graphic Representation of a 'Development Corridor'**



*“Although there is a tendency to limit the current proposals for infrastructural development to ‘A New Silk Road,’ such a transportation link, by itself, will not meet the requirements for a general and sustainable upsurge in the economic development of Eurasia. What is required, rather than merely a ‘New Silk Road,’ is a network of corridors of combined transportation, power generation and distribution, large-scale water management, and related changes, all along pathways of development of up to 100 kilometers width.”*

related diseases of human, animal, and plant life, a challenge which impels us to seek deeper approaches to such matters, in addition to existing methods now threatening to be overwhelmed by the problem.

Those three reasons would be sufficient motive for placing the work of Vernadsky in a place of high honor in the work of Eurasian development. Two considerations must be added to those just identified.

First, perhaps more than any other figure of the past century, Vernadsky confronted the scientific world with the deeper implication of the work of predecessors such as France’s Louis Pasteur. Second, this had the included result of fostering related scientific developments within Russia and

Ukraine, which have remained, during recent decades, better pursued by specialists there, in some respects, than in the world outside. It is one of the areas in which leading specialists from there still have, despite the ruinous effects of the recent decades’ economic problems there, a relatively unique and notable contribution to the scientific practice and progress of the world at large.

For these five and related reasons, the image of the continuing challenge to science and technology represented, most emphatically, and more comprehensively, by the work of Vernadsky, serves us now as perhaps the most appropriate, personalized image of the benefits, for all mankind, of pursuing the core development of the new Eurasia cooperation,

the development of its basic economic infrastructure, as the enduring gift of this cooperation to all future mankind.

Call it, therefore, “The Vernadsky Syndrome.”

## The Matter of Riemann

The nature of the argument on the noosphere, and referenced evidence, by Vernadsky, is so profound, in its implications for scientific thinking as a whole, that, as in any great scientific breakthrough in past history, a great discoverer, like Johannes Kepler, for example, bequeaths more questions to his successor, than completed answers. Thus, Vernadsky’s work requires us today to take into account the relevance of those discoveries by Bernhard Riemann, without which much of the discovery which Vernadsky presented as the fruit of his own and others’ work, could not be presented in an adequately integrated form. Similarly, without situating the notion of a noosphere within the context of my field, the science of physical economy, the practical application of the notion of a noosphere to national economy is not feasible.

This, because my own original discoveries in physical economy, led me to discover the importance of Riemann’s work as a way of integrating those discoveries, my own reliance upon the work of Vernadsky grew by more or less discrete increments over the course of the recent four decades.

The relevant conceptual problem to be considered, has the following principal features.

Crucial is the notion, that there exists a universal physical principle of life as such, a principle distinct from anything found in non-living processes except through the intervention of living processes. This conception has a long history within the bounds of experimental mathematical physics itself.

The first crucial example is that summarized by Plato in his *Timaeus* dialogue, the notion, premised upon the anomalous implications of the discovery of the principle of the five Platonic solids, that there exists a universal, measurable principle of life, not found in non-living processes.

Notably, Luca Pacioli and Leonardo da Vinci, two followers of the Cardinal Nicholas of Cusa, who, among other missions, founded modern experimental physical science, emphasized Plato’s evidence; so did avowed follower of Cusa, Pacioli, and Leonardo, Johannes Kepler. Kepler based all his principled discoveries in physical science, including his original discovery of universal gravitation, upon those principles.

However, with the intervention of Paolo Sarpi’s launching of empiricism, official modern science has been divided between the Classical science of Plato, Cusa, Pacioli, Leonardo, Gilbert, Kepler, Huyghens, Leibniz, Gauss, Monge, Gauss, Alexander von Humboldt, Riemann, et al., on the one side, and the empiricists and Cartesians on the other. Notably, all of the empiricists, especially those radical empiricists known as the logical positivists, insist that life is, in principle, a product of mechanical principles. The latter, extremist view, is typified by the reductionist ivory-tower doctrines of those who insist that life is merely a product of molecular biology.

Thus, the influence of the empiricist school and its prog-

eny, has held back greatly what would have been accomplished had the radical reductionist method not enjoyed relative hegemony among relatively well-funded branches of scientific practice. Largely on this account, the kind of evidence referenced by Vernadsky, respecting a principle of life as such, lies in scattered heaps on the horizon. We possess a sizeable collection of experimentally validated anomalies, reflecting the fact that life is a distinct universal physical principle separate from non-living processes; but, we lack the sort of well-organized team-work needed, to bring a large assortment of proven, relevant anomalies, into the form needed to approach the condition in which we are, at a later point, able to define a corresponding universal principle of life as such.

Vernadsky was correct, in mentioning the proposal he had received, that the matter of the connections among various types of anomalies should be approached, conceptually, from the standpoint of Riemann’s work on the subject of multiply-connected, hypergeometric manifolds. This is precisely the situation which confronts us in my specialty, the science of physical economy, in which a principle of cognition must be adduced from its effective expression in different media, in which the fact that the connection is multiply-connected in the Riemannian sense, is crucial.

The work of specialists in relevant types of anomalous biogeochemical effects, must be fostered, and teams of gifted young students and professionals employed and equipped, so that we might fill up the numerous experimental gaps in our studies of relevant anomalies. Those with backgrounds in this work from Russia and Ukraine, are of notable importance. Properly resituated within the domain of the application of the science of physical economy to the Eurasia infrastructure mission, the rebuilding of scientific capabilities in these implications of biogeochemistry can serve also as an aid in rebuilding the lately depleted general scientific capabilities of both Russia and Ukraine in particular.

Finally, effective forms of fundamental scientific work are highly personalized endeavors. The mental imprint of the leading scientific worker, is an integral part of the competence that leading figure fosters in the development of his students and associates. Science is as cooperative as Archimedes shrieking “Eureka!” to all hearers; but it is, at the same time, highly personal and individual. It is as a student seeks to relive the validated act, made by a predecessor, of an original discovery of universal physical principle, that the student relives in his or her own mind, that moment of discovery in the mind of the predecessor. Thus, the greatest discoverers in history, even when they are presently long deceased, continue to have an indispensable kind of personal impact on the most intimate thinking processes of a student, or leading working scientist of today.

Therefore, let the actual thinking process of the great Vernadsky be replicated in the minds of the professionals and gifted students of today. To bring that desired effect about, one should begin, by remembering his name.

# Relentless Economic Crisis Pounds East Asia

by Mary Burdman

Yasuhiro Nakasone, one of Japan's most senior political figures, made an extraordinary statement, comparing the current lack of leadership and instability in Japan, to the tumultuous period of the 1930s, in an interview with the April 21 *Japan Times*.

"The style of politics followed by the [ruling Liberal Democratic Party] during the postwar era is now showing signs of metal fatigue," stated the former Prime Minister, who is 82. The LDP has not been able to contain the damage after the bursting of three "bubbles"—economic, social, and political. On the economy, "the government has continuously resorted to makeshift steps, pressured to take immediate measures," Nakasone said. These short-term measures fail, and Cabinet after Cabinet has resigned.

Nakasone's five-year government ended in 1987. Now, Prime Minister Junichiro Koizumi will become Japan's 11th prime minister in 13 years. Koizumi not only faces the ever-deepening economic and financial crisis in Japan, but, in July, there will be national elections for the upper house of Parliament.

*Éminence grise* Nakasone compared this situation to that of the late 1930s, when Japan had six prime ministers in just six years. The country, going through social and economic chaos, embarked on the 1937 Sino-Japanese War, which led into World War II. "Although problems plaguing Japan over the last decade are mainly economic, there is a resemblance [between then and now]," Nakasone told the *Japan Times*. It was in that chaotic period, when two prime ministers, as well as a number of other prominent figures, were assassinated, that Japan was taken over by fascist and militarist forces.

The end of the Cold War had a big impact on Japan, as it did on Germany. Now, "the important thing is to present a medium- to long-term goal so the people will have hope for the future," Nakasone said. But most politicians today are limited to "individual policies" and lack the ability to have a more comprehensive view. "The qualities needed in a prime minister are an aspiration to lead the nation and training on political [strategy]," he said.

## The Ever-Growing Debt Trap

Nakasone made his warning, as Japan and East Asia as a whole are plunging again into economic-financial crisis far worse than that of the 1997-98 "Asian crisis." The U.S.

economy is imploding fast, with Europe's not far behind. In the first quarter 2001, U.S. imports have taken the steepest rate of decline in more than 20 years, which has hit East Asia brutally. Southeast Asian leaders, including Malaysia's Prime Minister Dr. Mahathir bin Mohamad and Thailand's Prime Minister Thaksin Shinawatra, have been warning publicly of the effects of the U.S. contraction on their nations, with Thaksin warning at a UN meeting in Bangkok on April 23 that the economic future of Asia is "extremely precarious."

Japan, the world's second-largest economy and the only "G-7" economy in East Asia, is itself in a relentless downward spiral, which is sucking in the rest of the regional economies, because Japan is the largest or second-largest trading partner of most other Asian nations. The critical problem, is that Japan is enmeshed in an enormous, ever-growing trap of bad debt. Tokyo has now admitted officially that it is burdened with approximately \$1.3 trillion in unpayable bad debt—22% of total lending in Japan. This figure is some four times the size of earlier official admissions. Japan's public-sector debt is fast approaching 150% of its annual GDP of about \$5 trillion, the result of a decade of unsuccessful government "stimulus" programs and bank bailouts, which cost the government some \$1.5 trillion.

Now, the trap is closing. Japan's banks are trying to write off their debt, estimated by international agencies as approaching 100 trillion yen, but in the process are cutting off credit to enterprises teetering on the edge of bankruptcy, despite the re-instituted insane zero-interest regime of the Bank of Japan. At the same time, enterprises are facing shrinking exports and rapidly increasing cheap imports from developing-sector Asian nations. Japan's trade surplus with the rest of Asia was down 34.2%, the Finance Ministry reported on April 19, because of "a rapid increase in imports from Asian countries, mainly from China, which ships a large volume of raw materials and finished products to Japan."

In his press conference on April 26, outgoing Finance Minister Kiichi Miyazawa warned that Japan's "current pace of economic growth is not enough, as we have huge debt. Unless growth rises more, government bond repayment is difficult." Shigemitsu Miki, president of Mitsubishi Tokyo Financial Group, one of Japan's and the world's biggest banks, told the London *Financial Times* in an interview on April 18, that the critical problem is that Japan's bad loans just keep growing. The Financial Services Agency is estimating that during April-September 2000, 3.6 trillion yen of more bad loans was created, as enterprise bankruptcies soar. "We thought we disposed of all our bad loans, but Japan's economy in the second half of last year has worsened, and so new bad loans are being created. . . . [As] we cannot really expect the economy to improve . . . in the first half of this financial year, we expect the balance of bad loans to increase further," Miki said. The Japanese government has contingency plans to cover only the very worst debt, amounting to 33 trillion yen



(\$264 billion).

Especially hard hit is the construction sector, one of the biggest of Japan's real economy, which employs some 10% of the workforce. This sector was devastated by the crash of the real estate bubble in the 1990s, leaving behind an unresolved debt burden. Japan had turned to the information-technology "economy," centered on exporting to the United States, to fill the gap, but this sector is now in its death throes.

On April 13, the Japanese Cabinet Office warned that Japan's "economy is weakening. . . . Due to the U.S. economic slowdown, Japanese exports have declined, resulting in a fall of industrial output . . . [and] signs of stalled corporate investment." The same day, Economy, Trade, and Industry Minister Takeo Hiranuma warned that "economic prospects are extremely severe." A Bank of Japan report released on April 16 said that "net exports are falling rapidly," and that "industrial production is declining more sharply and excessive inventories of electronic parts and some materials are building up."

Bankruptcies are mounting: The liabilities of bankrupt Japanese companies have shot up 130.7% so far just in 2001, to 25.98 trillion yen (\$209.8 billion), according to Japanese research institutes. The number of bankruptcies was also up, by 12%, and was above 18,000 cases for the first time in 15 years.

Japan had to report a 20.6% year-on-year fall in its trade surplus for fiscal 2000. On a monthly basis, the trade surplus fell for the third month in a row, down 20% in February, after a fall of 57.9% in January and 20.7% in December 2000. Especially hard-hit has been Japan's trade with the rest of East Asia, which is focussed around the computer/high-tech sector.

## Thrown to the Wolves

The situation could not be more sharply posed for East Asia: Either these nations break with the "information technology" lunacy, and move rapidly, in cooperation with Russia and India, in the construction of the Eurasian Land-Bridge as conceived by Lyndon and Helga LaRouche, or it plunges further into disaster.

South Korea had been the world's 11th-largest industrial economy before 1997; now, its currency, the won, is again at "Asia crisis" levels of 1,340 to the dollar, with no recovery in sight. The won hit some 1,900 to the dollar at its lowest level in 1998. The resulting rising import prices are fostering out-of-control inflation. Exports are endangered: On April 18, the Korea Semiconductor Association reported that the market for its semiconductor chips is in the process of contracting by 45% this year. In 2000, the same market had grown by 108%. In an effort to bail out the stock market, the government has announced plans to get pension and other public funds to risk some 6 trillion won in the market, and Seoul announced a \$21 billion bank bailout on April 23. At the same time, construction of the critically important

North-South Korean railroad is not progressing, the result of President George W. Bush's loony, disastrous remarks about Pyongyang in February.

In Taiwan, capacity utilization in the computer/electronics sector has fallen to around 50%. Unemployment in March rose to a 15-year high of 4.1%. While this is low by Western standards, it reflects the closure of some 5,000 factories in Taiwan last year. Production has fallen 4.4% year on year, and many enterprises are moving to China, where costs are lower.

Southeast Asia, much poorer than South Korea or Taiwan, is even more on the edge. Small countries such as Malaysia and Singapore depend upon the electronics/high-tech sector for more than 50% of their exports. Despite Dr. Mahathir's protective policies, Malaysia, a nation of only 20 million, could lose 15,000 of its highest-paid jobs in the electronics sector.

Most endangered is Indonesia, a nation of 200 million people, which is being thrown to the wolves. The embattled President Abdurrahman Wahid is warning of civil strife, and police officers issued "shoot on sight" warnings for Jakarta on April 26. Yet, while Washington is ensuring that at least some International Monetary Fund monies are gotten to NATO member Turkey and to Argentina, part of Bush's Americas free-trade initiative, Indonesia is being driven rapidly into bankruptcy. A two-week IMF visit which ended on April 24 refused to release even a pathetic \$400 million payment. This had been agreed to in December, and in the meantime it has lost 20% of its value due to the crash of the rupiah, now at 12,000 to the dollar, approaching its crisis-depth of 16,000. Jakarta is in the utterly impossible situation of trying to get new loans from members of the Consultative Group on Indonesia, the World Bank, the Asian Development Bank, the United States, and Japan, to meet its budget deficit—but that is dependent upon agreement with the IMF. Indonesia, with some \$140 billion in external debt, is already paying some 45% of its budget for debt. The population faces utter poverty, and Indonesia faces civil war.

In this crisis, Lyndon LaRouche has made an urgent proposal which Asian leaders must heed. Japan and the other advanced nations must, he said in a discussion in Germany on April 18, first "raise the interest rates on general lending, thus accepting, now, a wave of bankruptcies of entities already hopelessly, inevitably bankrupt in fact." This would dry out the speculative bubble. Then, after putting the world economy through bankruptcy reorganization, nations must create "flows of new, low-cost credit . . . for public and private investments in the public interest." Such a policy was proposed in Germany in the critical year 1931, by Dr. Wilhelm Lautenbach and the Friedrich List Society. It was aborted when Adolf Hitler was pushed into power, but was implemented in the United States, by President Franklin Roosevelt. With such credit, Asia could launch in earnest the Eurasian Land-Bridge, also known as the New Silk Road.

# Electric Power Plants: Sold Down The River into Deregulation

by John Hoefle

While the movement for re-regulation of the U.S. energy system gains strength, the Wall Street/Southern Strategy, Inc., crowd is running a flanking operation to destroy the electric utility system by transforming the industry itself into energy pirates. The vehicle for this operation is the utility holding company, which many utilities have created over the years to allow them to engage in activities outside of those allowed to regulated utilities. Today some 67 utility holding companies, which own electric utilities serving two-thirds of all U.S. electric customers, are the leading edge of the de-structuring of the industry.

The name of the game is to transfer electricity-generating capacity out of the regulated utilities and into either unregulated subsidiaries of the same holding companies, unregulated subsidiaries of other holding companies, or companies not affiliated with regulated utilities. Removing the generating capacity out of regulated utilities both greatly weakens the ability of state regulators to stop price gouging and paves the way for a rapid consolidation of major power generators.

This transformation has already begun. Since the end of 1997, there have been 378 electricity generating plants with a total generating capacity of 128,000 megawatts transferred from regulated electric utilities into the hands of what are called independent power producers, or IPPs. That amount is equivalent to 18% of the 712,000 MW of generating capacity held by regulated utilities at the end of 1997. Over the same period, a wave of mergers among utility holding companies has occurred, further concentrating the industry.

Looking at these changes, it is useful to recall the comments of Enron President Jeffrey Skilling to *BusinessWeek* magazine, in an online interview published on Feb. 12, 2001. Asked who should own the power plants, Skilling replied: "Financial institutions, insurance companies, and pension funds. They have the lowest cost of capital. What we should be doing as an industry is packaging them in a way where we take away the risks that they don't like. They don't like to operate things. They don't like to take the risk on commodity prices. We ought to do that stuff and then sell them the underlying asset with kind of an annuity return."

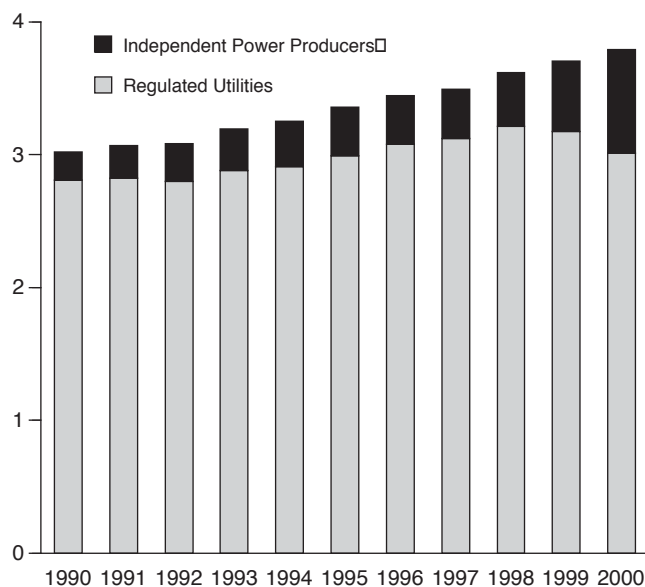
In short, in Enron's view, electricity should become a financial play, with the prices set by the "market" and the

"risks" managed through derivatives. The changes we are now seeing are consistent with such an insane vision.

## The Fading IOUs

Since 1990, the unregulated IPPs have been steadily increasing their share of the market. While the total amount of electricity generated increased by 25% during that period, the amount generated by the regulated utilities—called "investor-owned utilities," or IOUs in the trade—increased just 7%, while the amount of electricity generated by the IPPs increased 267%. In 2000, the IPPs generated 21% of the nation's electricity, compared to 7% in 1990 (**Figure 1**). These IPPs include not only companies such as AES, Calpine, Duke

FIGURE 1 □  
**Net Generation of Electricity: Regulated Utilities vs. Independent Power Producers** □  
(Trillions of Kilowatt-Hours)



Source: Energy Information Administration, U.S. Department of Energy.

Energy, and Dynegy—accurately characterized as “pirates” by California Gov. Gray Davis (D)—but also unregulated subsidiaries of the same holding companies which own regulated utilities.

An example of the latter is Edison International, the parent of Southern California Edison, the big IOU electric utility; Edison International also owns Edison Mission Energy, an IPP. While Southern California Edison was forced by the California deregulation process to divest much of its own generating capacity, its parent company, acting through its Edison Mission Energy subsidiary, has been an active buyer of generating capacity in the Midwest. Edison’s northern California neighbor, the bankrupt PG&E, has played a similar game, selling its own power plants and buying plants in New England.

The utility holding companies have become major players in the IPP game, both through transfers of generating capacity from their regulated to their unregulated pockets, and from buying capacity from unrelated IOUs. Edison, in fact, has been the single largest IPP purchaser of generating capacity from IOUs in recent years, followed closely by Mirant Corp., the IPP spin-off of Southern Company, the big Atlanta-based holding company which owns a number of southern IOUs (**Table 1**). PPL Corp., parent of Pennsylvania’s PP&L, and Public Service Enterprise Group (PSEG), parent of New Jersey’s Public Service Electric & Gas, have also been major buyers. Other utility holding companies on the buyers’ list include Minneapolis-based Xcel (which also owns NRG Energy); Baltimore-based Constellation; Houston-based Reliant (whose board includes Bush Family consigliere James A. Baker III); Charlotte-based Duke Energy; St. Louis-based Ameren; Maryland-based Allegheny; Delaware’s Conectiv; Virginia’s Dominion Resources; Florida’s FPL Group; Hartford’s Northeast Utilities; and New York’s Consolidated Edison.

By removing their power generation to unregulated subsidiaries, the utility companies are becoming electricity pirates themselves, able to charge whatever the market will bear for their electricity, even to their own regulated subsidiaries. But even that is just a transition phase, as many of these companies will themselves disappear.

### Powering Down the Industrial Belt

The heaviest concentrations of IOU generating capacity divestiture are in California, New England, and the Midwest (**Figure 2**). The greatest divestiture, in terms of total capacity sold, has occurred in Pennsylvania, the state touted as the success story of deregulation, with California, Illinois, New York, and New Jersey not far behind (**Table 2**).

Looking at this divestiture as a percentage of each state’s IOU generating capacity, yields an even uglier picture. From 1998 through 2000, Maryland utilities sold off generating capacity equivalent to 94% of the state’s IOU generating ca-

TABLE 1  
**Who Is Doing the Buying?**

Buyer	Plants	MW
Edison International	14	12,650
Mirant <sup>1</sup>	21	12,530
PPL Corp	29	11,066
PSEG	16	10,831
Sithe <sup>2</sup>	28	9,372
Xcel	14	7,152
AES	9	6,129
Orion Power <sup>3</sup>	11	5,992
Constellation	11	5,584
Reliant Energy	6	4,568
Dynegy	8	4,108
PG&E Corp.	15	3,975
Dynegy/NRG Energy <sup>4</sup>	10	2,931
Duke Energy Corp	3	2,881
Ameren Corp.	4	2,592
Energy	3	2,551
Amergen <sup>5</sup>	3	2,498
Allegheny Energy	6	2,395
Powergen plc	5	2,094
Louisiana Generating LLC <sup>6</sup>	2	2,036
Conectiv	16	1,743
Calpine	2	1,432
Dominion Resources	1	1,319
FPL Group	4	1,099
Northeast Utilities	15	1,076
Consolidated Edison	8	186

<sup>1</sup>Mirant Corp., formerly Southern Energy, is a spin-off of Southern Company.

<sup>2</sup>Sithe is jointly owned by Exelon, Vivendi of France and Marubeni of Japan

<sup>3</sup>Orion Power is a joint project of Constellation Energy, Goldman Sachs and Tokyo Electric Constellation Energy, the parent of Baltimore Gas & Electric, is also part-owned by Goldman Sachs.

<sup>4</sup>NRG Energy is owned 82% by Xcel.

<sup>5</sup>Amergen is a 50-50 partnership between Exelon and British Energy, and specializes in owning and operating nuclear power plants.

<sup>6</sup>Louisiana Generating LLC is a joint venture of Southern Co., Xcel and Ziegler Coal. owning and operating nuclear power plants.

Sources: Energy Information Administration, U.S. Department of Energy; company reports.

capacity in 1998, making the state extraordinarily vulnerable to price spikes. A similar process occurred in Massachusetts, where sales equalled 81% of 1998 IOU generating capacity, followed by 79% in New Jersey, 61% in Illinois, 60% in Montana (where Montana Power is transforming itself into Touch America, a communications company!), 57% in Pennsylvania, 51% in Rhode Island, and 50% in Connecticut. Delaware, New York, Maine, and California fell in the 38-46% range.

As is evident from these figures, the Northeast, with its heavy concentrations of population and relatively heavy con-

FIGURE 2

## Sales of Electricity Generating Capacity from Regulated Utilities to Independent Power Producers, 1998-2000, by State

(Megawatts)



Source: Energy Information Administration, U.S. Department of Energy.

centrations of industry, is rapidly losing control over its own electricity infrastructure. By 1998, Rhode Island already depended upon IPPs for 99% of the electricity generated in the state, and 67% of the power generated in neighboring Massachusetts came from IPPs. Continuing sales of capacity in 1999 and 2000 have only made the situation worse. During those same years, significant sales occurred in New York, Pennsylvania, New Jersey, Maryland, and Illinois, as the disease spread south and west.

### Rapid Consolidation

Even as the utility holding companies transform themselves into pirates, a wave of consolidation is sweeping the industry, creating regional and multi-regional giants, often with strange new names.

The biggest of these new companies is Exelon, formed by the merger of the holding companies for Commonwealth Edison and PECO, the Chicago- and Philadelphia-area utilities, respectively. Exelon is the nation's largest owner and operator of nuclear power plants, both in its own name and through its 50% ownership of nuclear operator Amergen. The other half of Amergen is owned by British Energy. Exelon also owns 49% of Sithe Energies, a major IPP previously controlled by France's Vivendi, the Lazard Frères-connected company which recently bought the Bronfmans' Seagrams; Vivendi and Japan's Marubeni remain significant investors in Sithe.

Another Midwest utility company on the move is First Energy, based in Akron, Ohio. First Energy is the holding company for three Ohio utilities—Ohio Edison, Toledo Edi-

TABLE 2

### Sales of Regulated Electric Utility Generating Plants to Unregulated Power Producers, 1998-2000

State	Number of Plants	Generating Capacity (Megawatts)	Sales as % of Total 1998 State Generating Capacity
Pennsylvania	44	21,016	57.5%
California	29	20,164	38.5%
Illinois	27	19,770	60.8%
New York	101	15,659	44.8%
New Jersey	27	13,142	79.0%
Maryland	17	10,849	93.7%
Massachusetts	31	8,401	81.3%
Connecticut	21	3,300	50.3%
Montana	14	2,988	59.9%
Kentucky	5	2,094	13.1%
Louisiana	2	2,063	10.1%
Washington	2	1,461	5.6%
Ohio	2	1,177	4.3%
Delaware	6	1,127	45.9%
Maine	31	1,099	38.9%
DC	2	868	107.7%
Florida	1	639	1.6%
Indiana	2	639	2.9%
Virginia	3	553	2.9%
Rhode Island	1	489	51.1%
New Hampshire	4	328	11.5%
Vermont	4	103	10.7%
Alaska	1	57	2.7%
West Virginia	1	51	0.3%

Source: Energy Information Administration, U.S. Department of Energy.

son, and Cleveland Electric Illuminating Company—and Pennsylvania utility Pennsylvania Power. First Energy is also in the process of acquiring GPU, Inc., the Morristown, New Jersey-based owner of Jersey Central Power & Light and two Pennsylvania utilities, Pennsylvania Electric and Metropolitan Edison. (Assuming the GPU merger is completed, six of Pennsylvania's eight largest IOUs will be owned by out-of-state holding companies.)

Xcel Energy of Minneapolis was formed by the August 2000 merger of Northern States Power and New Century Energies, and it owns six utilities which serve customers in 12 states ranging from Wisconsin to Texas to Arizona. Xcel also owns NRG Energy, a major IPP involved in joint ventures with Houston-based Dynegy. New Century Energies was formed in 1997, from the merger of Public Service Co. of Colorado and Southwestern Public Service Company.

Boston-based NStar was formed in 1999 by the merger of

BCE Energy, the parent of Boston Edison, and Commonwealth Energy System; its utilities include Boston Edison, Cambridge Electric, Commonwealth Electric, and Commonwealth Gas.

In addition to the domestic mergers, foreign interests—primarily British—have been acquiring U.S. electricity companies. Britain's National Grid plc bought both New England Electric System and Eastern Utilities Associates, giving it a service area which includes virtually all of Rhode Island, roughly half of Massachusetts, and small areas of New Hampshire. In September 2000, National Grid reached an agreement to buy New York utility Niagara Mohawk, a deal which will more than double its service area and make its U.S. operations equal in size to its British operations, which include running the electricity transmission grid in England and Wales.

Other British deals include Scottish Power's purchase of Oregon's PacifiCorp, and Powergen plc's purchase of LG&E Energy, owner of Kentucky Power and Louisville Gas & Electric, which together serve more than 1.1 million electric and gas customers.

U.S. electric utility companies and independent power producers have also been active in foreign power markets, buying or building power plants in Europe, Asia, and Ibero-America.

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# State Budget Crises Escalate into Disaster

by Richard and Mary Jane Freeman

The United States is now experiencing a crisis of state budget deficits, which has already engulfed 14 states, and could spread to as many as 25 by the end of June and all states by the end of this year. The crisis threatens the U.S. financial system, and severely endangers the states' populations.

For the last decade, state governments have steadily built up large yearly budget surpluses. They then plowed these surpluses into sizable "ending balances," i.e., balances of surplus funds, above immediate operating expenses, that can be used for "rainy days."

The states achieved these surpluses through taxation on the speculative and/or non-productive side of the economy: the U.S. stock market bubble and the Information Age "New Economy." In the mid-1960s, the City of London-Wall Street financier oligarchy imposed a "post-industrial society" policy upon the United States, which, while withering production in manufacturing and agriculture, built up a huge cancerous speculative bubble, further sucking the life-blood out of the physical economy.

As long as the non-productive, speculative side of the economy grew—and it did—the states acted as if they had tapped into a gold mine, in the form of increased tax revenues. Many state officials boasted that the states had entered an era of "permanent budget surpluses," and that the era of struggling to balance their budgets was over (48 out of the 50 states have laws requiring them to balance their budgets each year). Within the past 12 months, many state officials have begun to realize that their firmly held beliefs were delusions, and are beginning to panic. The U.S. stock market is disintegrating and the "New Economy" is blowing apart, which has cut the floor out from under state tax revenues.

That bubble blowout is deadly for the states, but a further, parallel development has turned the states' disaster into a nightmare. The productive U.S. physical economy—the other side of the U.S. economy—is also blowing apart. This side of the economy, which comprises manufacturing, agriculture, construction, transportation, and public utilities, supports human existence. Its breakdown causes a large reduction of states' tax revenues. A North Carolina state budget official reports that the manufacturing sector has "taken a big hit" this year, which will reduce revenues. As Iowa State Rep. Steve Falck (D) exclaimed of that state's multimillion-dollar revenue shortfall, which requires severe budget cuts,

"This isn't belt-tightening. This is the Texas Chainsaw Massacre."

The combined loss of tax revenues from the speculative and productive sides of the economy is sizable, and losses are growing at an accelerating rate. Whereas during temporary state budget crises, revenue shortfalls might equal 0.5 to 1% of state expenditures, today, in many instances, they are 2-5% of state expenditures, and could soon be several times that. States cannot function under such circumstances.

## Vital Programs Are Slashed

In conjunction with the U.S. government, state governments are called upon to fulfill certain vital functions to promote the General Welfare, especially with regard to provision of several forms of basic infrastructure—transportation, water management, education, and health and hospital services. But, as a result of the budget crises, state governments are slashing vital programs, ranging from cuts in Medicaid, the program providing medical assistance to the poor, elderly, and sick; to halting school construction or cancelling classes at state-funded colleges; to cutting back transportation projects, and so forth.

The reality is that the budget crises are caused by the biggest global financial-economic disintegration in 300 years. Lyndon LaRouche stated on March 21 (see box) that state legislators and others must broaden their horizons, and address this problem on a national and international level. States cannot solve these crises and defend their populations, on a local basis. If state leaders fail to grasp this, their states will be destroyed as part of the general collapse.

We will look at the quickening pace of budget crises and harsh austerity, and then at how the state budget process has been transformed over 30 years, based on fatally flawed assumptions and policy decisions which created this mess—and portends a far worse crisis.

The unfolding of events in 14 states (see *Documentation*) shows the scope and ferocity of the budget crises. Budget cuts are being imposed across the country, from Arkansas, where Gov. Don Siegelman is cutting funds to state universities, colleges, and museums by 11.2%; to Iowa, where there is a state freeze on some contracts, equipment, supplies, vehicle purchases, and travel; to Ohio, where Gov. Robert Taft imposed cuts of 3-5% on several state agencies; to North Carolina, where in response to a \$791 million shortfall, Gov. Mike Easley has invoked emergency powers and ordered no new construction, repair, or renovations of most state infrastructure.

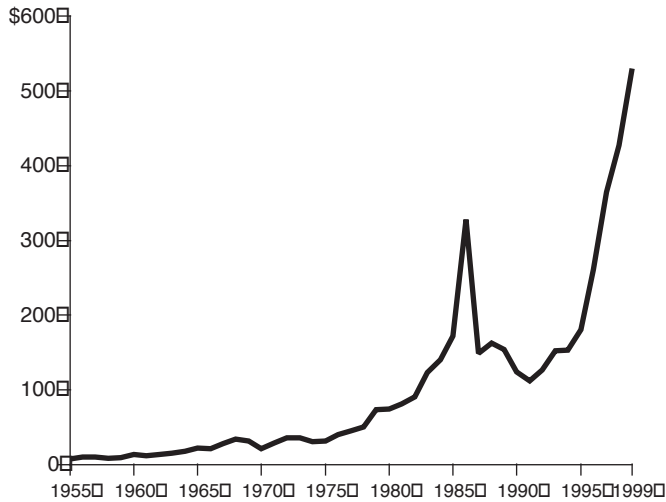
## Growing Addiction to Speculation

To understand the problem, we must look at how states became increasingly dependent on taxation of speculative and non-productive economic activity, as opposed to the activity of the real physical economy. In particular, we exam-

FIGURE 1□

## Realized Capital Gains in the United States□

(Billions \$)

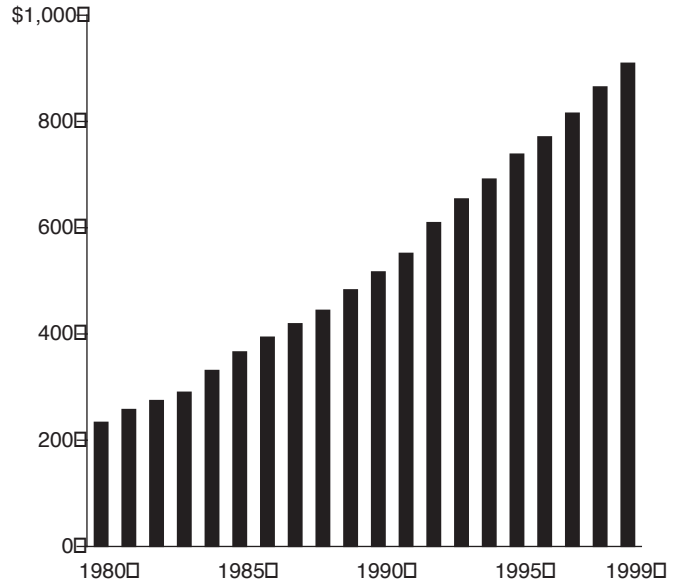


Source: Congressional Budget Office, Tax Division; “Statistics of Income” of the Internal Revenue Service of the Department of Treasury; *EIR*.

FIGURE 2□

## Total State Revenue□

(Billions \$)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

ine two sources of tax revenue, the state general sales tax and the personal income tax, which account today for two-thirds of the states’ total General Revenue. We look at the change in the internal composition of these two taxes—what is being taxed when these taxes are applied—which shows the dangerous situation the states have gotten themselves into.

Start with revenues: The Total State Revenue represents all the revenue that a state takes in, through taxes, fees, etc. (with the exception of revenues that the state takes in for specially earmarked trust funds, such as the state employee retirement trust fund). It is the most comprehensive measure of state revenues. **Figure 1** shows that for all 50 states combined, Total State Revenue grew from \$234 billion in fiscal year 1980, to \$910 billion in fiscal year 1999, which is the latest year for which data are available. (These data come from the Census Bureau of the U.S. Department of Commerce.)

However, when the states officially report their revenue levels, they do not report the Total State Revenue, but instead report the State General Revenue, which is smaller than, and a subsector of the Total State Revenue. There are several reasons why the states don’t officially use the Total State Revenue, reasons which are too complex to go into here. But it is useful to show one difference, in scope, of the category Total State Revenue versus the State General Revenue.

The Total State Revenue includes “intergovernmental

transfers.” This includes U.S. Federal government payments to the state governments, such as funds to the states to pay its share of the Medicaid program. On the other hand, the State General Revenue does not include “intergovernmental transfers.” There are other important differences.<sup>1</sup>

Because the states use the State General Revenue level in their official reporting of revenues, we will concentrate on that here.<sup>2</sup> **Figure 2** shows that for all 50 states combined, State General Revenue grew from \$137 billion in fiscal year 1980, to \$500 billion in fiscal year 1999, an increase of more than three and one-half times; there is a significant growth since 1992. What accounts for this growth?

### Taxation of Speculation

To understand the normal functioning of the state budget, and its aberrant functioning since especially 1990, which has produced the current budget crises, one needs to distinguish

1. On the whole, the state General Revenue includes revenues: 1) that mostly come from taxation and not from fees, and 2) are revenues that the states originate within their borders, and not revenues that come from outside the state.

2. Both the National Association of Budget Officers and the Census Bureau of the U.S. Department of Commerce present very similar data on state General Revenue. For consistency, and to be able to compare data, such as that of total state revenue and state General Revenue, we use the Census Bureau figures, which differ from the NASBO figures by a very small amount.

between productive and non-productive economic activity, and the worker who might be employed in a productive economy as opposed to a non-productive one.

In the 1950s and 1960s, and to a much lesser extent during the 1970s and 1980s, the principal income of the states came from taxing the activity of the productive economy, such as manufacturing, agriculture, mining, construction, transportation, etc. Either the state taxed the businesses and farms directly through a corporate income tax, or it taxed the workers.

There are two principal ways it taxed the workers: either through state personal income tax (PIT), which an increasing number of states have adopted since 1970, or through the general sales tax (GST). Since these two taxes supply the lion's share of the income to the states' general revenue budget, it is useful to look at both.

The PIT taxes: 1) wages, salaries, and tips; 2) interest, dividends, and rent; 3) capital gains; and 4) stock options.

The GST applies a tax at the retail store when a citizen

buys clothing, furniture, hardware, food (in most states), cars, and so forth.

In the 1950s, 1960s, and early 1970s, and to a lesser extent during the late 1970s and 1980s, the state governments derived most of their PIT through taxation of wages, salaries, and tips. Not all the jobs were productive, but the bulk of the PIT was on wages and salaries. During this period, there was some PIT revenue from interest, dividends, and rent, and some from capital gains, although that revenue was small. The PIT revenue from stock options was negligible.

During this same period, the General Sales Tax collected revenues from individuals' purchase of cars, clothing, etc.—the normal gamut.

Now, look at the distinction in the 1990s. Today, the states will apply the same two taxes—the PIT and GST—but the internal composition of where the revenue come from, and what the taxes are applied against, has changed, reflecting the shift into the “post-industrial society.” It is not as if the states

## States Cannot Solve Crisis on Their Own

*During a March 21 seminar that was broadcast internationally on the Internet, Lyndon LaRouche developed how to approach the matter of state budget crises.*

**Mississippi State Rep. Erik Fleming:** My question is going to be more local, as far as the state governments are concerned, in this financial crisis. Our current situation in Mississippi, is that we still have a projected growth, not as much as the so-called economists said it was going to be, . . . but next fiscal year we're not going to be so lucky. So, what would be your assessment on what state legislators need to be doing in order to prepare for that, as far as putting together budgets, putting together programs and services, and so on? And what kind of defense plan . . . and what kind of offensive plan do we need to have to start recovering, after that point?

**LaRouche:** I think we're looking at—we have to look at an estimate of, in the course of the next 12 months, a probable 30% collapse across the board in the real economy. . . .

When you take an economy like ours, in which the base of the economy, the agricultural, industrial, infrastructural base, is actually a shrinking portion of the total economy, and you collapse that economy, the bubble economy, which exists on a highly leveraged basis, you're not talking about recession; you're not talking about depression; you're talking about a depression of the kind that Europe

faced in the immediate postwar period, at the end of the war. . . .

So therefore, I think the key thing is, yes, it's important to look at this question the way that you pose it. But I don't think there are any solutions in that [state/local] area. . . .

We're now at the point, where either this government changes its ways, and adopts the lessons of the Hoover-Roosevelt cooperation in early 1933, to take the initial emergency actions which redirect the direction of the economy, to begin to deal with this crisis. Because, what we can do, in that case, the way we can deal with this, with a state problem, is the old way: You create a public authority with a credit authority; you've got a section of the country that's in a disaster. What do you do? You take a project which you have, which you know is there, it's sound, it's needed. You put the project into effect, in order to stimulate that local, state economy. And, in that way, you're able to pull things together and get the state through it.

That's what we have to do. That's the *only* way we're going to be able to deal with these problems, is do it the Roosevelt way, or learn the lesson of what Roosevelt did, and adapt to that: Federal projects, Federal agencies, using the power of credit of the Federal government, under a reorganization scheme, to make sure that the credit is a line of credit—not money, a line of credit—going to the financial system, like it went to the RFC, the Reconstruction Finance Corporation, under Roosevelt, is going into the areas to work for *earmarked purposes*, worked out with state authorities, to make sure that state stays in business. And that's the way it's going to work. But, we have to have a change in government, or the *heart* of government, to do that. And that's what I'm working on.



chosed the post-industrial society; that change was imposed on the U.S. economy by the financier oligarchy from the top down. However, like all entities in America over the past 30 years, the state governments adapted to the post-industrial society, and vigorously fought for it when they mistakenly believed it advanced their purposes.

Consider the application of the PIT against wages and salaries today, and the difference it makes, in general, whether it is applied to someone from the productive economy or the non-productive economy. Consider a household, headed by a manufacturing worker, that has an income of \$40-45,000 per year. Compare that to a household that is riding the crest of the Information Age, speculative, non-productive economy. One member of the household may work for a so-called “high-tech” or dot-com company, whose activity may be largely or entirely non-productive. That person may earn \$75,000 per year. The other member of the household may work in finance, insurance, or real estate, which is entirely non-productive. This household which works in the non-productive economy takes in \$150,000 per year. The taxes it pays on just its wage and salary income are likely at least three times what the household headed by a manufacturing worker pays. The employment in the high-tech, dot-com, finance, insurance, or real estate sectors, up until recently, has been exploding. This has represented a bonanza for the state’s PIT income stream (not to mention the corporate taxes the state collects from dot-com firms, banks, insurance companies, etc.).

### Capital Gains Taxes

Wage and salary income from the bubble economy is just one form of income that a household can earn, and that the states can tax. Another huge source of household income, earned mostly by wealthy families, which the state can tax, is capital gains. Capital gains, even though they have their own tax rate, are a segment of personal income tax.

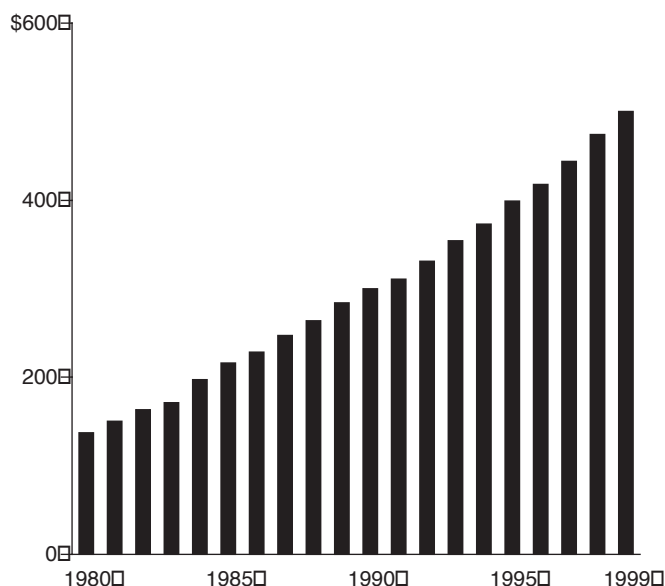
A capital gain is simply the buying of any asset at one price, and, after holding it a period of time, selling it at a higher price. A capital gain can be realized on stock, real estate, or a work of art. So, for example, if one bought a stock at \$10 per share, and sold it at \$50 per share, that is a \$40 capital gain. If one had bought and sold 100,000 shares, the capital gain is \$4 million.

**Figure 3** shows the growth of capital gains in the United States from all sources, of which the majority are from the stock market. Between 1990 and 1999, capital gains exploded nearly four and one-half times, from \$123.8 billion to \$530 billion, in tandem with the explosive run-up in fictitious stock market values.

Though a national average does not exist of the percentage that capital gains represent of states’ tax revenues, it is possible to gain insight by looking at a single state. In this case, we use California data, both because that is America’s largest state (with 12% of the nation’s population), and because it

FIGURE 3 □  
**State General Revenue □**

(Billions \$)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

made the information available.

On March 30 of this year, Ted Gibson, chief economist for California’s Department of Finance, told *EIR* that for fiscal year 2001, which ends on June 30, the state expects to collect \$8 billion in capital gains taxes, \$43.3 billion in personal income taxes, and a total of \$79.4 billion in revenues from all sources (including the PIT, GST, and other taxes). It can be seen that the PIT accounts for a very large percentage of California’s total tax revenue. Based on Gibson’s information, capital gains represents a stunning 18.5% of California’s PIT revenue, and 10.1% of all California’s General Revenue income. It is incredible for capital gains to supply one-tenth of a state’s total income.

But, the situation becomes even more amazing: Gibson reported that California anticipates taking in another \$8 billion from its taxation of household income based on stock options.<sup>3</sup> Thus, capital gains and stock options together repre-

3. Stock options work as follows: A company, particularly a “high-tech sector” company, may offer one its employees stock options in order to attract or keep that employee. Under a stock option, an employee is entitled to buy, say, in three years time, 10,000 shares of the company’s stock, and pay, for example, \$30 per share—though, the stock may be trading, in the open market at \$60 per share. The employee, by exercising the stock options, makes \$300,000 (\$30 times 10,000). This is counted and taxed as the employee’s wage compensation (not a capital gain); it is still a segment of the state’s personal income tax.

sented an incredible 37.0% of California's PIT revenue, and 20.2% of all of its general revenue income. To say that California's budget is vulnerable to the stock market bubble, is an understatement.

## How Much Revenue Is Derived From the Bubble?

Can one make an educated estimate how much of California's total general revenue income derives from the non-productive, bubble economy? There is one additional element to consider. We have looked at the change that has taken place in California's PIT revenue; what about the change in its GST revenue?

Go back to the example of the difference between the income of a household headed by a manufacturing worker, earning \$40-45,000 per year, and the household whose employment is in the non-productive, speculative economy, earning \$150,000 per year. The household headed by a manufacturing worker makes its purchases of food, clothing, cars, and pays its general sales tax on that. The household whose employment is in the non-productive economy has \$150,000 to spend, but it may have earned money in the stock market or through exercising stock options, so it may have another \$100-200,000 to spend. The spending of money from the stock market and other bubbles is called the "wealth effect." This second household, then, instead of buying a car for \$20,000, may splurge and buy a car for \$50,000. It will buy fancy clothing, expensive furniture, etc. In all of these purchases, it will pay a greater amount of GST. Thus, the non-productive, speculative economy also swells GST receipts.

Thus, to answer how much of California's general revenue is dependent on the non-productive, bubble economy, we have the following elements to form an estimate. We know California:

1. Collects \$16 billion from taxation of capital gains and stock options, which constitutes 20.2% of all of the state's General Revenue income;
2. Collects a considerable amount of its PIT from the millions of households employed in the non-productive, speculative economy (much more than from households headed by manufacturing workers);
3. Collects a considerable amount of its GST from the millions of households employed in the non-productive, speculative economy (much more than from households headed by manufacturing workers);
4. Collects a considerable corporate tax income from firms that engage in the non-productive, speculative economy.

From these elements, it is possible to estimate that the non-productive, speculative economy represents a staggering 35-45% of all California's general revenue income. That is, at least one-third to two-fifths of California's revenue comes from taxation of the non-productive, speculative activity.

What happens when that activity, which has nothing solid supporting it, ceases to exist? Even an initial meltdown of one-third of the bubble economy would wipe out 11.7% to 15% of all of California's general revenue, a shattering blow. And, the loss of revenue would grow as the bubble economy melted down further.

But, at the same time, the U.S. physical economy is melting down, affecting California further. (This is intensified by the insane energy hyperinflation that energy bandits, including Enron, Reliant, and Duke Power, have imposed upon California, which is crippling the state's physical economy.) As California's physical economy is devastated, the tax revenues that it would normally collect—through the PIT, GST, and corporate income taxes—likewise collapse. So, California loses tax revenues from the speculative bubble economy and the physical economy.

California has been exposed to industrial and agricultural collapses before, and suffered loss of tax revenues. What has changed now is, that first, the physical economic collapse this time will be far more severe than in the past. Second, because of the profound shift during the past 10-15 years, to becoming addicted to tax revenue streams from the non-productive economy, California faces a revenue loss that it would never have incurred years before. Thus, the long-term effect of California's shift to an addiction to the non-productive, speculative economy is that it *permanently amplifies the magnitude of revenue loss to a crisis that is beyond control.*

## Other States

The explosive budget deficit potential that has built up in California exists in every other state. It is possible that these states do not have as extensive an exposure as California to the speculative economy, but even if they have half of California's exposure—and many have much more than that—they are in serious trouble.

The problem is traceable to the very nature of the PIT and GST. **Figure 4** shows, for 1980-99, the growth of GST and PIT revenues. GST collection rose from \$43 billion to \$168 billion, and PIT collection rose even more steeply, from \$37 billion to \$172 billion. Notice the increase in PIT collection since 1992.

**Figure 5** shows, for 1980-99, GST and PIT revenue as a percentage of total general revenue. The percentage of GST revenue did not change much, ending in 1999 at 33.2% of total general revenue. But the percentage of PIT revenue rose, from 27.5% of total general revenue to 34.4%, with a sharp rise in the last two years.

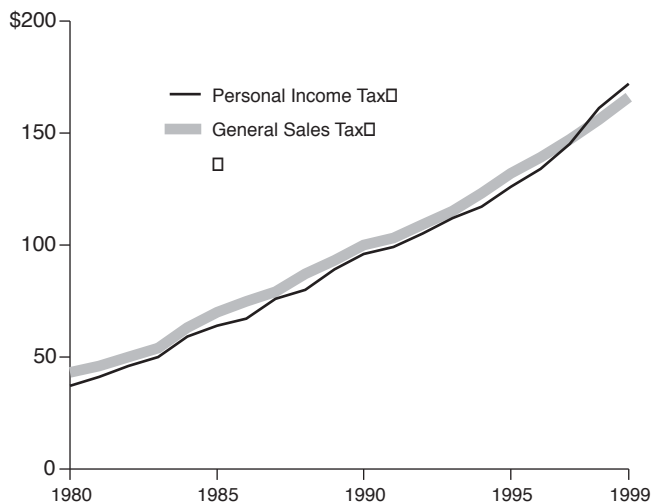
On the whole, during 1980-99, the GST and PIT combined rose from 58.6% of total general revenue to 67.6%. Given that the GST and PIT revenues are so dependent on the bubble economy, that means that, on the whole, each state's general revenue is thus extraordinarily vulnerable.

The meltdown of the bubble economy, combined with industrial collapse, sets the stage for a crisis in every state.

FIGURE 4□

### Personal Income Tax Revenues and General Sales Revenues, 1980-99□

(Billions \$)

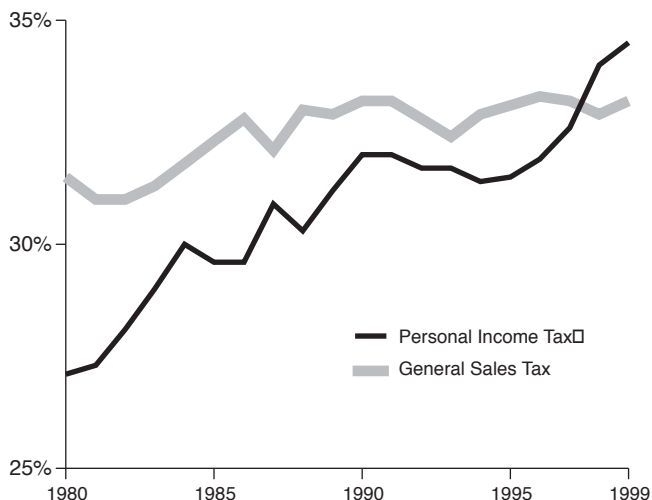


Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

FIGURE 5□

### Personal Sales Tax Revenues and General Sales Tax Revenues, as a Percent of State General Revenue, 1980-99□

(Billions \$)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

## The Consequences

All states are responding to the crisis with actions which do not constitute a solution. Many states are slashing infrastructure and services, which destroys the physical economic basis for the next economic cycle, and thus contributes to the crushing of the economy.

Some states are attempting short-term fixes, such as drawing on “rainy day” or “ending balance” funds, or raising taxes. But every state has ignored the harsh reality: The budget crises cannot be solved on a local basis; there is no way to protect one’s state from the real world.

The crises have national consequences. For example, on March 22, Moody’s rating service downgraded the state of Wisconsin’s bonds from “stable” to “negative.” Many other states’ ratings will follow suit.

LaRouche has laid out a national and international solution:

Put the world financial system through Chapter 11 bankruptcy, and organize a New Bretton Woods monetary system, pivoted on great infrastructure projects such as the Eurasian Land-Bridge, which will carry out global economic reconstruction.

This will eliminate the non-productive, speculative bubble economy, and thus states’ need to depend on it for revenue.

Unless this step is taken, the state budget crises will multiply, and shred any semblance of either state budget functioning or protection of the General Welfare.

## Documentation

### Budget Cuts, Revenue Shortfalls Hit States

Here we provide a thumbnail sketch of the budget status of 14 states. Even these data will have changed when states tally April personal income tax (PIT) revenue collections. By May, this picture is likely to be worse.

**Alabama:** The state’s Education Trust Fund (ETF) budget for FY 2001, originally set at \$4.31 billion, is now short \$264 million. Gov. Don Siegelman has ordered cuts of all education budgets. K-12 public schools are cut by 3.76%, or \$109 million. Universities, colleges, and museums are cut 11.17%, or \$157 million. Layoffs of up to 1,800 teachers and 2,000 janitors and other support staff may result. March payouts to education were delayed and now will also be cut. The ETF is the largest state operating fund, which relies on 12 tax sources including PIT, sales, utility, and user taxes.

**Arkansas:** Gov. Mike Huckabee imposed \$8 million in cuts on the state’s FY 2001 spending to deal with a \$24 million shortfall in projected revenues. He hopes the remaining \$16 million will be covered by fewer tax refund claims,

or else more cuts will be required by June 30. The *Arkansas Democrat Gazette* reports that legislators are considering a beer tax, hiking fees for birth, death, and marriage certificates, and drivers' licenses. State Sen. John Riggs (D-Little Rock) says that raising income taxes is "politically impossible," and that "if the state hadn't cut taxes \$160 million a year" in 1997 and 1999, the scramble to give teachers raises wouldn't be happening.

**Florida:** Gov. Jeb Bush faces a shortfall of at least \$271 million. He and legislators are considering cuts that could be politically explosive, e.g., eliminating benefits that help the poor and elderly get eyeglasses, hearing aids, and dentures.

**Indiana:** Gov. Frank O'Bannon and the legislature learned on April 12 that cumulative shortfalls so far this fiscal year and those projected for the next, leave the state two-year budget \$950 million short. For FY 2001, this means \$200 million in cuts and/or spending of reserves. March tax collections fell \$61 million short of expected revenues—the second month in a row that they fell. PIT and corporate income tax collections have fallen \$250.2 million behind projections for this fiscal year because of industrial layoffs, lower corporate profits, and earlier tax refund claims. State budget director Betty Cockrum has asked state agencies not to spend \$35 million of appropriated funds in the current budget, and has ordered a delay on building projects. The state plans to rely on gambling revenue and draining the general fund to tide them over to the end of the biennial budget years, June 30, 2002.

**Iowa:** Gov. Tom Vilsack and the legislature have a \$16-22 million revenue shortfall for this fiscal year. Vilsack supports \$5 million in budget cuts combined with a \$4 million transfer from a court technology fund to deal with it—far short of plugging the gap. On April 12, the state's finance director announced hiring restrictions, a freeze on some contracts, and equipment, supplies, and vehicle purchases, and travel expenditures. These measures are expected to revert \$10 million to the treasury.

House Republicans fear that the government is about to slip "into red ink," and approved \$22 million in cuts.

Democrats say the cuts will lead to layoffs, curtailment of services, and tuition increases. State Rep. Steve Falck (D) said, "This isn't belt-tightening. This is the Texas Chainsaw Massacre." State Rep. Don Shultz (D) suggests undoing the \$100 million tax cut on utility bills approved in January.

**Missouri:** Gov. Bob Holden as of December had to impose a 2-5% hold on agencies' budgeted spending when revenues were expected to be \$100 million short of target. But by April, the state revenue collections will have fallen such that the total annual shortfall will reach \$250-300 million. The cuts have affected all expenditures except education. Also, a \$155 million capital improvement fund is now frozen, to be drawn on to close the gap if April and May

revenues fall off. A hiring freeze is in effect, and the legislature has just approved use of \$127 million from a legal settlement with the major tobacco producers to help balance the budget.

**Mississippi:** Gov. Ronnie Musgrove imposed 5% across-the-board cuts to general fund spending, except in K-12 education (only 3%), for a total of \$137 million. A 15% tuition hike at the state's eight universities, as well hiring freezes, are expected. In early March, the state's tax commissioner expected sales tax collections to be \$27-30 million short of projections for the year. By mid-March, \$50 million had been taken from reserve funds to cover the deficit.

**Nevada:** Gov. Kenny Guinn has been asked by Morse Arberry (D-Las Vegas), chairman of the state legislature's Ways and Means Committee, to point out what can be cut in the budget. Faced with a \$43 million shortfall, Arberry said, "The picture . . . doesn't look rosy. We need your assistance in coming up with a battle plan if we're going to start hacking."

Guinn, however, isn't ready to rewrite the budget until he sees another month of revenue collections. Tentative plans are to make \$20-30 million in cuts of one-time expenses (e.g., equipment). Tahoe.com reports that "if sales and gaming taxes don't bounce back before the end of this fiscal year," the shortfall could grow to as much as \$44.7 million. Gaming and sales taxes make up more than 70% of Nevada's general fund revenues.

**North Carolina:** Gov. Mike Easley, faced with a potential \$791 million shortfall for this fiscal year, declared a state emergency as of March and imposed a \$1.5 billion freeze on state spending. State budget officials euphemistically call this "building an escrow fund." This is how it is done: A hiring freeze, travel and purchasing restrictions, and no new repair or renovations on state infrastructure, to free up \$407 million to revert back to the general fund. This has meant a 6-7% cut in most agencies' budgets, with the exception of cuts that would jeopardize public health, safety, and education.

If April revenues are off, then even these areas will be up for cutting. Then, \$598 million is being taken from other resources, including some trust funds. For example, payments into the state's retirement fund have been suspended for five months to save \$151 million. One state budget official said that the state's manufacturing sector, referring to the micro-electronics and information hardware industries that service the dot-coms, which are a big part of the state's economy, has taken "a big hit."

**Ohio:** Gov. Bob Taft ordered an additional 1% cut of agencies' budgets between now and June. This is on top of cuts of 2-4% already ordered in January to shave off \$125 million in spending. Revenue shortfalls in sales taxes (\$190.8 million below estimate), the personal income tax (\$51.1 million), and all other tax revenues (\$39.7 million) have

brought the total shortfall to \$282 million. Ohio's economy is 19.6% dependent on manufacturing (nationally, manufacturing jobs account for just 14.3% of jobs). Before the add-on 1% cut, the Department of Corrections had a hiring freeze in effect, and says this new cut will mean 350 layoffs by end of June.

**Tennessee:** Gov. Don Sundquist learned on April 12 that his state's March tax collections were \$100.5 million less than March of last year, resulting in a cumulative \$200 million shortfall for the year. State Finance Commissioner Warren Neel said that tax collections are 5% below this fiscal year's projected figures. "We're in the same kind of recession pattern we were in in 1991. The only difference is that it looks like we're in a steeper decline than . . . then." He said it is likely that the state will have to dip into its "rainy day" fund for at least \$50 million to cover the current budget. So far, the state has targetted \$150 million in budget savings through delayed purchases and not filling staff vacancies.

**Texas:** Gov. Rick Perry will draw on reserves and unspent appropriated funds to cover \$708 million in expenditures for the state's prison and Medicaid programs, as well as some workers' compensation claims, which were not adequately budgeted. An emergency appropriations bill proposes to cover the gap by taking \$35 million from unspent education funds, and unspecified amounts from the Employee Retirement System, the Children's Health Insurance program, and the state's surplus.

**Virginia:** Gov. Jim "No Car Tax" Gilmore has ordered \$421 million in spending cuts. Gilmore's intransigent insistence on eliminating the car tax, means that \$275 million in spending cuts will come out of state colleges, resulting in deferment of construction, and \$146 million will come out of state agencies, including public safety and environment. It is also likely that a planned 3.5% salary raise for teachers and state employees will not materialize.

Even his GOP allies are turning against him. When Gilmore insisted that his balanced budget would "not result in the layoff of a single deputy sheriff," State Sen. Kenneth W. Stolle (R) retorted, "The governor needs to tell that to [Norfolk Sheriff] Bob McCabe, who's already [laid] off 18 deputies."

**Wisconsin:** Gov. Scott McCallum has frozen state agencies hiring, restricted travel, and all agencies are to revert 0.5% of their budgets to the general fund, spending 0.5% less than appropriated.

By mid-February, revenue projections were falling. Wisconsin's bond rating was downgraded from "stable" to "negative" by Moody's on March 22 because of ongoing "budget imbalances" and declining revenue growth, according to news reports. Moody's said that Wisconsin has drawn down its reserves, such that it started the fiscal year with \$836 million in reserves, but now projects \$159 million by fiscal year's end.

## U.S. Spring Grain Crop Falls Far Short

by Marcia Merry Baker

In the U.S. grain belt, energy hyperinflation, on top of low commodity prices for farm output (following from the 1996 radical markets-based "Freedom to Farm" Act), are creating conditions for drastically reducing grain production. Since about 40% of annual world grain exports originate in the United States in the recent years of globalized trade, a drop in U.S. grain output is automatically a strategic issue for the world food supply. All the reports from the current U.S. Spring planting and crop progress look grim.

**Corn:** On March 30, the U.S. Department of Agriculture released its annual March "Grain Planting Intentions" report. The USDA forecasts that 3 million fewer acres of corn will be planted this Spring, falling to a crop area of some 76.7 million acres, down from 79.5 million last year. In fact, it could be even worse. Anticipated cotton acreage is also down.

Farmers are facing short supplies of nitrogen fertilizer, and high prices (with prices up to as much as 200% over last year), because natural gas is the key input for anhydrous ammonia fertilizer. Soybeans don't require nitrogen fertilizers, and their acreage accordingly may rise, but this is not an offset in the food chain.

**Wheat:** The area planted last Fall for Winter wheat, the main type produced in the United States, was down to the lowest acreage in some 30 years — 62.5 million acres. Of that, the area expected to be harvested beginning this June, is now also going down sharply.

The expected decline in harvesting is greatest in Kansas, the biggest wheat state, and in Oklahoma, also an important producer. For Kansas, the estimated wheat harvest this year might be 300 million bushels, in contrast to the state's recent average of 370-400 million. For Oklahoma, the harvest might be 100 million bushels, down from a five-year average of 160 million. In the face of poor crop progress, due to a dusty Fall and flooding in the Winter, many farmers will not bother to reap the harvest, with maybe 20% of Kansas farmers abandoning their crop, and 40% in Oklahoma. Wheat futures for May rose 4% in April, on speculation of a low harvest.

**Potatoes:** In Idaho, the world potato center, and eastern Washington, farmers cut back on irrigated acreage this Spring, in exchange for a cash deal from Bonneville Power Authority, to forgo electricity this season. Drought and electricity speculation are causing havoc throughout the Northwest, including in the irrigated wheat region of eastern Washington.

LAROCHE IN 2004: A DRAFT POLICY

## Launch a Sudden Recovery

by Lyndon H. LaRouche, Jr.

April 22, 2001

Early this past week, I warned against yet another lunatic act of Nietzschean desperation by U.S. Federal Reserve Chairman Alan Greenspan. This time, I presented, in summary, my own three-point policy for halting the world's presently accelerating economic collapse, and for launching a durable process of general economic recovery.

Those proposals were:

1. Increase the general interest-rates, rather than lowering them.
2. Apply the principles of "Chapter 11" bankruptcy organization, to ensure the continuity of functioning of those public and private institutions which make an essential contribution to the general welfare.
3. Launch a "Franklin Roosevelt" style of economic recovery measures, through regulated flow of newly created credit to relevant public and private enterprises.

I emphasized the relevance of such precedents as both the FDR recovery policies, and those comparable 1931 proposals presented to the Friedrich List Society of Germany by Dr. Lautenbach, which latter, if they had been adopted openly by the German government, could have prevented Adolf Hitler's coming to power.

My own proposal early last week, won approval from some knowledgeable persons, from several nations, who are notable for their superior past performance in both financial and economic analysis and forecasting; however, they warned that the lunatics presently in charge of international financial policy, were likely to continue with foolish policies, such as

Greenspan's, which would accelerate the presently ongoing, global financial catastrophe. I regard those reactions to my proposal, as a fair description of the implications of an increasingly deranged, and desperate state of mind of most leading U.S. and other policy-makers today.

Nonetheless, it was and remains my view, that by putting forth that proposal at that moment, I might contribute to creating the circumstances in which my proposal could win adoption among a significant number of leading and other nations. It is ideas which have been placed on the table at a time when their adoption seemed most unlikely, which are, usually, the indispensable first step toward securing their sometimes early adoption. I explain the deep principle involved in making such preemptive policy-proposals, and, after that, add some vital information on the actual implementation of an economic-recovery proposal such as my own.

### The Principle of the Flank

In virtually all childish games, the play is regulated by a rigged, pre-fixed set of rules. If adults were childish enough to play the game of life by such fixed rules, society would either collapse, as it often does, or the people would break those rules and adopt more appropriate, new ones. Thus, it is often rightly said, that "a done deal" is a "mafia"-style game, which, on past performance, usually puts some of the players early into the cemetery. All games played by fixed rules, either collapse more or less immediately, or simply slide into their lawful ruin by a corrosive process of attrition.

In politics, as in military science, the alternative to doom, is a sudden change in the pre-set rules, which often brings victory to the side which has the good sense to see a reality which exists outside the world as it is seen according to the generally accepted notions of existing rules. The easily recog-

nizable name for such successes in breaking the assumed rules of the game, is called “flanking” the problem. The famous von Schlieffen documented the way in which Frederick the Great of Prussia flanked and whomped, twice in the same day, a superior, highly professional Austrian army, which latter thus suffered the misfortune of playing by a set of pre-fixed “blackboard” rules of the game, at Leuthen.

In the practice of science, the discovery of a universal physical principle, is exactly such a “flanking” action against the stubborn fool who is still playing at the blackboard according to pre-set rules of mathematical physics.

It is also a fundamental general principle of all successful scientific practice, that all great scientific discoveries of principle, occur as a result of the eruption of a crisis in a generally accepted, present way of thinking in terms of some fixed set of rules. My associates and I have repeatedly cited an historically interlinked pair of Classical examples, that of the way in which Kepler discovered a principle of universal gravitation, and that of the way in which Fermat created a revolution in geometry by discovering a principle of quickest time, rather than shortest distance.

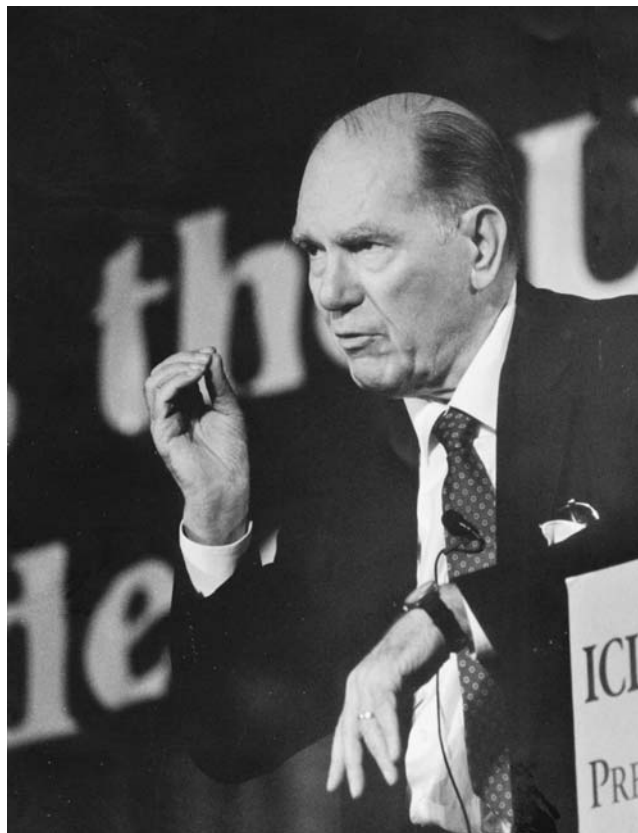
Any such crisis in the juxtaposition of fact and belief, takes a form which may be described mathematically, as a fatal error in the equivalent of currently generally accepted mathematical physics at the blackboard. What one’s mathematics at the blackboard says should happen, not only does not happen, but any attempt to describe the contradictory reality by existing mathematical rules leads to a disaster of the type called a fundamental paradox, within the existing practice of science.

The same principle applies, with full force, to generally accepted forms of that mathematics-at-the-blackboard used to describe and defend what is taught as economics in virtually every university classroom and boardroom in the U.S. today. The reason I have been consistently successful, over more than three decades, in my long-range economic forecasts, whereas all of my opponents in that field have consistently, and now catastrophically failed, is that, as the saying goes, “they were not playing with a full deck.” They were playing according to sets of rules, which, while generally accepted among most influential circles, did not correspond to the real world.

Sooner or later, as has now happened, the fact that my critics “were not playing with a full deck,” has caught up with them. If they are intelligent and sane, they will admit their mistake; if they refuse to admit their mistake, they have no choice but to go utterly mad, as hopeless Federal Reserve Chairman Alan Greenspan has done.

Whether the response is, in one case, a sane one, or, in another, not, nearly everything each has believed about economics, up to now, especially “free trade,” “globalization,” and “new economy,” has been proven, in reality, to have been dangerously absurd.

Now, therefore, how do I react to all those well-meaning



*Lyndon H. LaRouche, Jr. “Call it Lyndon’s rule in strategy: When no longer in doubt, flank!”*

people, who advise me to win others to my point of view “without alienating them by insulting their intelligence,” without pointing out to them the silliness of rules of economics and politics in which they continue to believe? How do I react to those who insist that I should address people “on their own level,” and “in terms they are willing to accept”? What a damned fool I would be, if I did not reject such seemingly friendly advice! If Frederick the Great had accepted such advice, he would have been whomped at Leuthen, instead of the Austrians he defeated.

The key to my outstanding successes as an economist, and as a strategic forecaster, has been, that I do not “play by the rules,” and have not damaged my mind, as so many have done, by thinking “according to the rules.” For anyone who wishes to know, that explains why I have acted, as I did, early this past week, in presenting an absolutely necessary economic-recovery policy, which even those who agree with the policy, think could not be implemented within the foreseeably near future.

Call it Lyndon’s rule in strategy: When no longer in doubt, flank!

The able, but errant Clausewitz, who was not up to the standard of the great Scharnhorst, spoke of the crucial role of decisiveness in warfare. It is a good principle, but not being



*Hyperinflation in Weimar Germany during the early 1920s: left, a banker counts the uncountable; right, a housewife lights her stove with worthless currency.*

susceptible to Romanticist influences, I understand it better than the post-Vienna Congress Clausewitz did. If you have a good cause, and can soundly outwit your adversary within the framework of the situation given to you, he is yours. You will defeat him, because your actions will occur in dimensions of physical geometry which he refuses to conceive as actually existing.

### **The Principle of the Economic Flank**

On the world's stage today, we have two, contrasting views of "doing the unthinkable." In the one case, we have the conduct of President George Bush, who apparently has mastered the paradoxical feat of choosing the unthinkable unerringly, and repeatedly, without actually thinking. Then, we have my approach, which is to introduce principles of reason which others have refused to think about, until they were slapped in the face with the biggest, presently accelerating financial collapse in world history.

Obviously, the only useful thing to say under such circumstances, is to insist: "There is another way to see this challenge, outside the set of rules you have been misguided into trusting." In short: flank the problem! Do not be such a craven and opportunistic lickspittle, that you refuse to raise the issue of the falseness of those axiomatic beliefs which your conversation-partner has been duped into trusting until now.

Say clearly, calmly, but emphatically and repeatedly: "There is a different way of thinking about economics; let me show you the error which has misled you into the present paradoxical situation."

The method which must be employed, is exactly that appropriate for discovering and proving the universal principle which solves an otherwise unconquerable paradox in physical science. You, yourself, must, first, undergo that experience of discovery and empirical validation of the needed principle. Then, you must use your own such experience, to provoke

and induce the same cognitive process of discovering and validating the needed principle within the mind of another person.

You must act to teach him the Socratic truth-seeking way of Classical humanist methods of education, a way which is lost from virtually all existing classrooms in the Americas and Europe today. (Which is why, not only in former Governor George Bush's Texas, each generation of students is more ignorant than the previous one, in virtually all U.S.A. and European classrooms today.)

"You think you know something about economics? Let me show you where most of you made your big mistake."

Think back to Germany in the Fall of 1923, to those legendary days when a wheelbarrow full of 100 billions-marks banknotes could not meet the current price of a loaf of bread! Look at the energy-supplies, and their skyrocketing prices, in the state of California today. When the German government launched the hyperinflation of Summer and Fall of 1923, that government had an excuse for its lunatic monetary policy: they had French-occupation bayonets shoved down their throats. Who is shoving bayonets down the throat of Federal Reserve Chairman Greenspan and those others, who are shrieking demands for stoking up the monetary fires of U.S. hyperinflation today?

With that image in your mind, look at your neighbor, the idiot, who is screaming about "My money! My money! My money!" Look at that idiot in the U.S. Congress, who is glassy-eyed as his voice utters: "The market! It's the market! How is the market doing at this minute?" What about the quasi-homeless in California's Silicon Valley, who, until recent months and weeks, were living on "new economy" professionals' incomes, but could not afford to secure a rental or mortgage on even a high-priced tar-paper shack with a Hollywood exterior pasted on.

Like the fellow pushing a wheelbarrow full of paper



money, in Autumn 1923 Germany, the simple question, "What can you buy, even if you have all that money?" takes all the magic out of the word "money." Meanwhile, since the high-point of recent market-indexes, the U.S. market has lost an obvious \$5 trillions of "only money" values of "shareholdings," and, counting losses which have yet to be shown on the books, nearer to \$10 trillions, or more. That in an economy whose official annual GDP is estimated in the order of \$11 trillions a year. Except for those who should be swapping their suit-jackets for psychiatric-clinic camisoles, the magic of "The market!" is in the process of evaporating, as gloom takes over, to roam the halls of the Congress where Newton "Robespierre" Gingrich's psychotomimetic ("psychedelic") elation once reigned.

As the psychedelic orgy of "Our Money!" and "The Market!" collapses onto the sidewalk, next to the lawn of the home he once owned, the thoughts of the sobered mind turn to man's physical relationship to nature, the place where real values lie still, when even a currency like the U.S. dollar might be on the verge of going out of existence. How much will CNN and NBC have left to talk about, when a calm, like a neglected graveyard of lost dreams, settles on those once-so-boisterous stock exchanges? What happens to the current majority of the U.S. Supreme Court, on the day on which Antonin Scalia's Bogomil-like god, called "shareholder value," dies?

The principal lunacy, which has reigned over the U.S.A., its political institutions, and its economy, during the recent thirty-five-odd years, is the assumption that the production of physical wealth flows from the investment of money. That lunacy is about to be brought low, very low. Instead, we are forced to return to the wisdom of the reality, that it is the productive powers of labor which creates that increase of physical wealth, and related services, for which money is bought and sold.

That long-overdue fundamental shift, back to sanity, in axioms, is the key to the present world situation.

The principle is: If we can make the physical economy grow, and if we keep prices in line with long-term trends in per-capita output, then, with the resources of a sovereign nation-state, we can grow successfully out of any depth of financial collapse. If we reorganize the economy, using a sovereign government's unlimited authority to conduct bankruptcy reorganizations in keeping with our constitutional principle of the general welfare, then, under such use of the "Chapter 11" precedent, we can successfully make our way out of any financial crisis, including the worst financial collapse in world history, occurring right now, today.

Such is the principle of the flank. Excise the false belief which misled the nation into its present folly, and insert the valid principle from which our nation should never have departed, the principle which made Franklin Roosevelt the only truly successful U.S. President since William McKinley was assassinated.

To bring about that change in prevailing beliefs, the

American people, at least a great number among them, must grasp the changes in principle, and see how those principles will work successfully to deal with the crisis at hand. We must spell that out for them. That will take much work on the part of many among us, but, we can, at least, begin now.

## Let It Be a Successful Bankruptcy

The fundamental law of the United States' Federal Constitution, reposes in the Preamble, in which the so-called General Welfare clause is, as President Franklin Roosevelt emphasized in opposition to what he called "the American Tories" of his time, preeminent in respect to all economic and related practice.

To this end, we require the conversion of a sufficient portion of heretofore reluctant members of the U.S. Supreme Court, to put the Constitution above the Confederacy's Lockean principle of "shareholder value," to join with the majority of the Congress, and both with the sane members of the Executive branch, to order and support a process of "Chapter 11" mode of bankruptcy reorganization of the political-economy of our nation, and to enter into cooperation according to the same general principle and goals with cooperating other nations.

Without that mobilization of the political will of the U.S., neither this U.S. economy, nor, perhaps, even our republic, can be saved from an early extinction.

There is no middle ground; it is that clear cut, and the relevant decision correspondingly simple. That must be made painfully clear to every adolescent and adult person, whether they wish to face that reality, or not. Their future depends upon it.

The leading measures to be taken fall under six principal sub-headings, as follows.

### A. Reorganization of Existing Accounts

Under no circumstances could all of the existing outstanding debts of the U.S.A. and world financial-monetary system ever be paid. Any attempt to enforce the continued imposition of that debt must necessarily loot the shrinking, remaining infrastructure and productive capacities of the world to the degree, that a general new dark age descends soon upon this planet as a whole. That is the first, hard decision which must be faced.

The greatest portion of that debt, must be written off. However, we must proceed to that result with careful attention to preserving the functioning of essential banking and other institutions, even if they were technically hopelessly bankrupt. Above all, we must defend the integrity of the U.S. official debt, as Treasury Secretary Alexander Hamilton explained this point; all other debt is negotiable, subject to priorities dictated by the principle of the general welfare, giving priority to essential pensions, health care, and the modest savings of households and essential smaller business and related enterprises.

The action placing relevant entities under protection of a

generalized “Chapter 11” bankruptcy reorganization shall be sudden, but, the resolution of the greatest portion of the generally frozen creditors’ claims shall be deferred for final resolution to a suitable future time.

## **B. Forecasting Standards**

In general, for reasons I have given elsewhere, the structuring of the process of reorganization in bankruptcy shall be designed for resolution of most of the outstanding claims over a period of about a quarter-century, or, a period of one basic economic cycle of the physical economy. Since it required thirty-five years to bring the once-prosperous economy to its present state of ruin, those who did so much to ruin it, should not consider their victims unreasonable in demanding that they should be allowed a quarter-century to rebuild it.

During that interval, gradually released and frozen financial accounts held under bankruptcy protection, may be drawn up according to relevant law and procedure to give ordinary citizens, households, and enterprises, the means to conduct their own affairs without excessive red tape.

Also, to the degree this is prudent, the presumption that some portion of assets held in bankruptcy may prove redeemable, it may be arranged that some of that portion, at least, be treated as a non-performing but otherwise durable asset of certain banks and other financial institutions which are deemed essential to the general welfare, and to aid productive enterprises in orderly conduct of their business.

## **C. Credit-Expansion and Infrastructure**

Under the conditions of bankruptcy reorganization produced by the present world financial collapse, the economic policy of the nation, must be focussed upon the use of regulated issues of public credit for increasing the ration of the total available labor-force employed in either the physical production of agricultural or industrial goods, development and maintenance of basic economic infrastructure, and essential services of material importance to both those functions and the welfare of the population.

This will not involve dumping monetary aggregate into financial markets, as is being done to hyperinflationary effect by Alan Greenspan, et al. Notably, since the chartered private corporation called the Federal Reserve System is itself bankrupt-in-fact, it must be taken under the protection in receivership of the U.S. Treasury, and its facilities utilized to provide the functions of a national bank, as the first and second national bank of the U.S.A. are a constitutional precedent for this. Although the implicit power of the U.S. Congress to authorize the issue of U.S. currency-notes, is involved in the creation of credit, public credit will flow into the market chiefly as credit to accounts within the banking system, under regulated and controlled conditions, as was done for U.S. defense production during the World War II mobilization.

Initially, the principal source of net growth of employment and physical net output will occur as public credit to

development and maintenance of basic economic infrastructure by Federal or state programs, or through regulated public utilities. As much as 60% or more of the initial growth of our presently collapsed national physical economy will occur through those channels.

This will be accompanied by a large shift within the labor-force as a whole, away from financial and related kinds of services, and from relatively unskilled personal services employment, into higher qualities of employment in work related to the process of production of physical goods and essential infrastructure. This credit-catalyzed shift in the structural composition of the employment of the labor-force as a whole, will be among the leading levers in increasing the real average productivity, and net physical standard of living of the labor-force as a whole.

Large, well regulated credit-flows into development and maintenance of basic economic infrastructure, will spill over, increasingly, through contracts, as a stimulant for rebuilding the private productive sector.

## **D. Credit, Not Currency As Such**

Under such conditions, there must be an immediate and drastic shift from the mentality of policies such as the inherently inflationary Kemp-Roth doctrine, to something akin to a “Kennedy investment tax-credit” policy.

The process of systemic ruin of the once-prosperous U.S. economy of the early 1960s, especially since the catastrophic 1977-1981 Carter Administration’s orgy of deregulation, into the wreckage endured by the relatively impoverished lower eighty percentile of family-income brackets today, demonstrates again, had that lesson been needed, that pouring money into the pockets of both the wealthy and relatively less-wealthy citizens, is not the way in which to promote actual net growth of the national tax-revenue base.

The way to go, is to maintain high rates of taxation on short- to medium-term financial capital gains, but to give advantageous tax treatment to medium- to long-term investments in the expansion and improvement of technologically progressive production of goods and in services relative to the welfare of the population and the promotion of technological progress in design and production of goods.

Similarly, we must have a relatively higher rate of interest charges on the borrowing of money, except for the protected categories of low-interest credit, and preferential tax treatments for investments and production in the relatively higher national economic and related interest. This serves, in addition to other purposes, to channel investment into medium- to long-term physical gains in productivity, and away from speculation, especially highly-leveraged speculation in the deadly area of short-term financial trading.

The emphasis must be on the theme of “prosperous austerity.” Get by decently in the short term, grow, and prosper in the medium to long term. The notion that today’s working family, shall have the benefit of increased produc-

tivity of the economy as their retirement age, and post-fifty health-care requirements increases, approaches, typifies a sound policy. Build a sound foundation, securely accumulated in growth of productivity, and secure financial assets, for a better future.

The image of wheelbarrows of money insufficient to buy a loaf of bread, should warn us that solid banked assets, especially long-term ones, if they are solid, is the place, not money or credit-card accounts, where a sensible nation builds up the bulk of its financial holdings.

### E. The Technology Driver

Sane economists measure productivity in terms of the increase of society's power, per capita and per square-kilometer, in and over the universe we inhabit. This includes the improvement of the demographic characteristics of the typical family household.

This relationship of mankind to nature, is unique to the human species; no other species is capable of willfully increasing its potential relative (sustainable) population-density, as expressed in both per-capita and per-square-kilometer ratios. This is the characteristic of the human species which biogeochemist V.I. Vernadsky underlined, in his defining this inhabited planet of ours as a noosphere.

The primary source of this increased power of the human individual, is the discovery and application of valid new universal physical principles, the discoveries on which the development of improved technologies depends absolutely. Therefore, the only mode of actually sustainable economic growth of a society, is what is called a "science-driver" mode. This means, not only corresponding policies of education of the population as a whole, but also emphasis on increasing the ratios of the total labor-force employed in fundamental scientific discovery, and in the translation of scientific progress into design, and improved methods of production, of products.

Government credit and taxation policies, must be attuned to emphasis upon that connection to sustainable real growth.

### F. International Cooperation

This means that the U.S. must cooperate with some leading groups of nations abroad, to effect the same general type of reform of relevant international treaty-organizations, as that required for the internal financial crisis of the U.S.A.

We require, urgently, right now, a return to the kind of system of fixed parities and regulation which were employed in the two immediate post-war decades. Since the U.S.A. and a number of other nations, would be sufficient to impose such sudden reforms within an IMF system which is, by its present nature, an implicitly bankrupt institution, such a reform is a feasible one, especially if the U.S.A. were to participate in bringing it about.

As I have emphasized repeatedly in other published locations, the key to a durable U.S. economic recovery, is a dura-

ble international economic recovery. The key to the world economy as a whole, lies in the urgency of U.S. cooperation with key nations of Eurasia, for a general Eurasian development, whose benefits would be directed into spill-overs into areas such as Africa and Central and South America. This must emphasize the increased output of high-technology exports, especially of a machine-tool quality, to those parts of the world which are relatively deficient in their own present capacity to meet such urgent internal consumption requirements.

This cooperation has several leading impacts for the U.S. economy itself.

First, it raises the priority for expansion of the science-driver potentials of the U.S.A., Europe, and Japan, most notably. In other words, the need for such technology in the world at large, must raise the level of priority for the quantity and rate of such scientific and related investment and employment in the U.S. itself.

In general, international cooperation along such lines, means a base-line for relevant policy-shaping and economic agreements of not less than a generation, approximately a quarter-century.

Say, 2026, by which time we should have put the worst of the present situation behind us, at least if we can now discover the good sense to adopt such a change in our policy.

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# What Is the ‘General Welfare’?

*From Benjamin Franklin to Franklin D. Roosevelt: Edward Spannaus traces the history of the U.S. Constitution’s General Welfare clause.*

“We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common Defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

The commitment to promote the general welfare of all persons, as opposed to protecting the interests of a narrow section or class of the population, encapsulates what is most unique about the United States of America — that it is the only modern nation-state republic founded on this principle.

Lyndon LaRouche has identified the principle of the general welfare as the only legitimate basis for the authority of government. A useful summary may be found, for example, in LaRouche’s article, “Will the U.S.A. Keep Its Sovereignty?” published in the Nov. 19, 1999 issue of *EIR*.

LaRouche emphasizes that our United States republic “came into existence as a direct heir of those anti-oligarchical, anti-Roman, Platonic principles of natural law” which were first affirmed in the founding of the first nation-state republics during the late 15th Century: France under Louis XI, and England under Henry VII. LaRouche describes the source of this law as “a combination of the Classical Greek, republican heritage, with those doctrines, respecting the universal notion of human individuality, which were promulgated by Jesus Christ and his Apostles, notably the Epistles of the Apostle Paul.”

Out of this, came the central principle upon which “the authority, powers, and responsibilities of the sovereign nation-state republic were premised . . . the notion of ‘general welfare,’ or ‘commonwealth.’

“The authority of the sovereign state lies solely in its indispensable role in promoting the general welfare of all persons, as Genesis I, and the Christian apostolic mission define all persons, as made equally in the image of the Creator of the Universe, and thus equally subjects of the obligation to promote the welfare of both the living and their posterity,” LaRouche wrote, adding that, “Only sovereign government has the means to promote the conditions of the general welfare respecting all of the people and all of the land-area, both for the living and future generations,” and that thus, the existence of such sovereign nation-state republics is shown to be “the morally required condition of mankind.”

This stands in opposition to those forms of oligarchical rule, in which the government is the private property of a ruling oligarchy, either a feudalistic, landed oligarchy, or a financier oligarchy of the sort that the British monarchy represents today. In such cases, governments exist to preserve the power and wealth of such oligarchies, and not to promote the general welfare of all citizens.

From the original colonizations of the Americas, those two outlooks have been in conflict; they are perhaps best expressed in the contrast between the Massachusetts Bay Colony of the Winthrops and Mathers, versus the Carolina colonies, whose constitution, written by John Locke, created a hereditary nobility, and ensured the primacy of property, including slave property.

What we shall do here, is to trace how the General Welfare clause became such a crucial element of the Constitution, looking back, both to the early colonial period, and then examining what the concept meant to the Founding Fathers (notably Alexander Hamilton), and others who shaped the political and economic life of the republic in the early 18th Century. Finally, we shall see the triumph of the Hamiltonian notion of the general welfare during the fight over President Franklin Delano Roosevelt’s New Deal in the 1930s.

Today, that commitment has been largely abandoned, both among “New Democrats” of the Al Gore type, and among the dominant grouping among Republicans, whose radical free-market policies stand in the utmost contrast to the Lincolnesque principles on which the Republican Party was once based.

## The Federal Constitution

The importance given to the General Welfare clause by the Framers is demonstrated by the fact that it appears, not once, but twice, in the United States Constitution — first in the Preamble, as a statement of the purpose of the Constitution, and then again in Article I, Section 8, which sets forth the substantive powers of Congress.

The clause was taken over from the Articles of Confederation, the preliminary Constitution of the new United States, during the period of the Revolution, until the adoption and ratification of the Constitution of 1787. The Articles of Confederation declared in Article III (the equivalent of a Preamble) that:

“The said States hereby severally enter into a firm league of friendship with each other, for their common defense, the security of their liberties, and their mutual and general welfare. . . .”

The Framers of the United States Constitution repeated the General Welfare clause in Article I, Section 8, for the purpose of giving it some teeth, by ensuring that Congress could raise and expend funds for the general welfare. This corrected a near-fatal defect in the Articles of Confederation: The Articles incorporated the concept of the general welfare, but failed to provide for its implementation.

How did this provision for the general welfare get into the Articles of Confederation? It was proposed by Benjamin Franklin to the Second Continental Congress in 1775. But to see why Franklin considered it to be so important, we have to go back almost a century and a half earlier, to John Winthrop and the Massachusetts Bay Colony.

The battle for a continental republic, based upon the notion of the general welfare, is properly dated from the founding of the Massachusetts Bay Colony in 1630. Winthrop sought a republic, where human beings would be more highly valued than land, and in which the earth would be improved for the benefit of its citizens.

In a 1629 treatise, Winthrop decried the degeneration of England, and called for the establishment of a republic in the New World:

“This land [England] grows weary of her inhabitants, so as man who is the most precious of all creatures is here more vile & base than the earth we tread upon, and of less price among us, than a horse or a sheep. . . . [W]e use the authority of the law to hinder the increase of people . . . , servants & neighbors (especially if they be poor) are counted the greatest burden which if things were right it would be the chiefest earthly blessing. . . .

“The whole earth is the Lord’s garden & he hath given it to the sons of men, with a general condition, Gen: 1.28. Increase and multiply, replenish the earth and subdue it, which was again renewed to Noah. The end is double, moral and natural, that man might enjoy the fruits of the earth and God might have his due glory from the creature. Why then should we stand here striving for places of habitation . . . and in the meantime suffer a whole Continent, as fruitful and convenient for the use of man, to lie waste without any improvement?”<sup>1</sup>

In 1637, Winthrop wrote that “the essential forme<sup>2</sup> of a common weale or body politic such as this is,” should be: “The consent of a certain company of people, to cohabitate together, under one government for their mutual safety and welfare.”

Foreshadowed here is the commitment to the “common

1. All spelling, capitalization, and punctuation within quotes, is preserved from the original texts.

2. H. Graham Lowry, “‘The Eyes of All People Are Upon Us,’” *EIR*, Jan. 28, 2000.



*John Winthrop, governor of the Massachusetts Bay Colony. The battle for a continental republic, based upon the notion of the general welfare, is properly dated from the founding of the colony in 1630.*

defense and the general welfare,” enshrined in the Preamble to the new Constitution of the United States, drafted exactly 150 years later.

Winthrop explained: “The welfare of the whole is not to be put to apparent hazard for the advantage of any particular members”—a very precise repudiation of an oligarchical form of society.<sup>3</sup>

The first effort to unite the colonies was the formation of the New England Confederation in 1643. Its constitution, the “Articles of Confederation of the United Colonies of New England,” were later cited by Franklin when he drafted the proposed “Articles of Confederation and perpetual Union” in 1775.

In the 1643 Articles, the equivalent of a preamble, or statement of purpose, read:

“The said United Colonies for themselves and their posterities do jointly and severally enter into a firm and perpetual

3. John Winthrop, “A Declaration in Defense of an Order of Court Made in May 1637.”



*The Saugus Iron Works, established by John Winthrop, Jr. in 1647. It was the first automated, integrated industrial complex in the New World.*

league of friendship and amity for offense and defense, mutual advice and succor upon all just occasions both for preserving and propagating the truth and liberties of the Gospel and for their own mutual safety and welfare.”

Presaging Alexander Hamilton’s proposals of 150 years later, in 1640 the General Court of the Massachusetts Bay Colony voted for subsidies for textile manufacturing, and other subsidies designed to promote manufactures. The General Court also provided for the construction of an iron mill with blast furnaces, and rolling and slitting mills. (It could only export goods after the colony’s needs were met—a measure we will come across again in Hamilton’s proposals.) In 1647, the Saugus Iron Works was established, the first automated, integrated industrial complex in the New World.

### **Benjamin Franklin’s ‘Junto’**

Benjamin Franklin personifies the continuity from the Puritan Commonwealth in Massachusetts to the American Revolution, through his work in the Pennsylvania colony.

And Franklin, arguably more than anyone else in our history, embodies the promotion of the general welfare: Witness his creation of the Junto, his founding of the American Philosophical Society, his promotion of public works, etc., in Philadelphia.

Franklin was born into a Puritan family in Boston in 1706. Early on, he became a protégé of Cotton Mather, and he declared Mather’s 1710 *An Essay Upon the Good* as the book which had influenced him more than any other. In 1714, Mather had proposed the creation of a bank to promote eco-

nomic recovery and to create a solid system of credit.

In 1727, Franklin issued his proposal for the “Junto” in Philadelphia, as a “club for mutual improvement.” The idea was expanded with the 1744 creation of the American Philosophical Society, which grew out of Franklin’s “Proposal for Promoting Useful Knowledge Among the British Plantations in North America.”

*Useful* knowledge is the key to Franklin’s proposal, for its purpose was to promote the general welfare through the development of what we would today call science and technology. Thus, there were always to be, among the members of the Society in Philadelphia, “a physician, a botanist, a mathematician, a chemist, a mechanician, a geographer, and a general natural philosopher.”

The members were to meet at least once a month, and correspond among themselves as well as with members in other colonies, concerning horticulture, mines and minerals, useful improvements in mathematics and chemistry, labor-saving mechanical inventions, all new arts and manufactures, surveys, maps and charts, animal husbandry, and “all philosophical experiments that let light into the nature of things, tend to increase the power of man over matter, and multiply the conveniences or pleasures of life.”

Similar notions were included in his proposal for the creation of an Academy in Philadelphia, which grew into the University of Pennsylvania—modelled on Göttingen University in Germany. As Franklin said in his proposal, a good education for youth is “the surest foundation of the happiness both of private families and of commonwealths.” The object



*Benjamin Franklin, arguably more than anyone else in American history, embodies the promotion of the general welfare.*

was to produce men “qualified to serve the public with honor to themselves and their country.”

Franklin’s proposal readily calls to mind an earlier proposal by Gottfried Wilhelm Leibniz, “On the Establishment of a Society in Germany for the Promotion of Arts and Sciences,” written in 1671.<sup>4</sup> In this wonderful essay, Leibniz argues that “charity . . . is nothing other than that love of the public good and universal harmony,” and that men should let themselves be used “as instruments for the glory of God and, what is the same thing, for the common good, and for the nourishment, ease of labor, comfort, instruction, and enlightenment of their fellow man, for discovery, research, and improvement of creatures. . . .”

Those to whom God has given reason and power together, he demonstrates, can use these in three ways for the glory of God, with good words (i.e., orators and priests), with good thoughts (i.e., those who make new discoveries of nature), or with good works (through public affairs or politics). The latter, Leibniz contends, is the most perfect way to seek the

4. Nancy Spannaus and Christopher White, eds., *The Political Economy of the American Revolution* (Washington, D.C.: Executive Intelligence Review, 2nd edition, 1996), p. 214.

glory of God, and to honor Him, by offering themselves as an instrument to do good for society. “These are the ones who apply the discovered wonders of nature and art to medicine, to mechanics, to the comfort of life, to materials for work and sustenance for the poor, to keeping people from idleness and vice, to the operation of justice, and to reward and punishment, to the preservation of the common peace, to the increase and welfare of the fatherland, to the elimination of times of shortage, disease, and war . . . and to the happiness of the human race. . . .”

Leibniz then suggests that among the most efficient means of carrying out such activities directed for the common good, is the creation of a society or an academy through which useful knowledge can be shared and promoted.

One cannot but notice the coincidence of the objectives sought by this great philosopher, with those outlined in the Preamble of the Constitution of the United States.

### **Leibniz versus Mandeville**

It is worth our while, at this point, to explore a bit further, the links between the Massachusetts and Pennsylvania colonies, and the Leibniz networks in Europe, and to also touch upon an hitherto unexplored facet of the combat between these networks and one of the foremost adversaries of the general welfare—the progenitor of the radical free-marketters, Bernard de Mandeville.

As Graham Lowry’s book, *How the Nation was Won*,<sup>5</sup> demonstrates, William Penn’s agent James Logan was a correspondent of Leibniz, and Logan recruited Germans to emigrate to Pennsylvania through the Leibniz networks in Germany, particularly through Dr. Hermann August Francke of Halle. Francke, himself a correspondent of Cotton Mather and a collaborator of Leibniz, organized the German emigration to New York and Pennsylvania starting in 1709; that Pennsylvania migration spilled into Western Maryland and the Shenandoah Valley of Virginia as well.

Francke was a professor of Greek and Oriental languages at Halle, and was also a theologian and a pastor, and he built up the famed Halle Stiftung—the Halle Institutions—consisting of schools, the Orphan House, eventually an Oriental Institute, and so on. Francke also was key in organizing the faculty at Göttingen University—Germany’s leading scientific center—which Franklin later visited, in 1766, and used as a model for the University of Pennsylvania.

Francke carried on an extensive correspondence with Cotton Mather in New England, which Francke’s son Gotthilf later continued with Cotton’s uncle, Samuel Mather. The principal subjects of Francke’s correspondence with Mather, and of his correspondence generally, were missions and charity-schools—the latter serving to educate and uplift the children of the poor.

5. H. Graham Lowry, *How the Nation Was Won* (Washington, D.C.: Executive Intelligence Review, 1988).



Cotton Mather, whose “*An Essay Upon the Good*” influenced Benjamin Franklin more than any other book.

Francke’s correspondence with Cotton Mather continued from 1709 to 1724. The longest letter which is translated is Francke’s letter of Dec. 19, 1714, which was reprinted in the third edition of his *Pietas Hallensis*, which became the basis of Mather’s “*Nuncia bona e terra longinqua*” (“Good News from a Distant Land”) of 1715. It contains a detailed description of the institutions at Halle and their growth, including the Oriental Institute.

Francke became a powerful influence upon Mather, as reflected in many of Mather’s writings. Mather’s *Bonifacius*, *An Essay Upon the Good*—which had a great influence on Franklin—was in large part based upon Francke’s descriptions of the Halle Institutions.

Looking at this correspondence, it is clear what Bernard de Mandeville—the evil godfather of today’s free-market fanatics—was attacking in his 1723 “*Essay on Charity and Charity-Schools*.” Francke, in fact, had set up the Halle Institutions, including the charity school, in direct opposition to the English model of the poor houses—which were work houses, poor houses, and penal institutions, all combined in one.

Graham Lowry has shown that Mandeville was a key figure in the satanic Hell-Fire Club which was deployed against the Mathers and republicanism; and in 1724, young

Ben Franklin was deployed to London on an intelligence-gathering mission, as part of which he met Mandeville.

The two overriding themes of Mandeville’s writings are: 1) that selfishness and licentiousness are not evil but are a social good (“private vice equals public virtue”), and 2) that it is not only wasteful, but it is counterproductive and harmful, to attempt to educate or improve the lower classes.

Whereas later writers of the anti-general welfare school tried to present the same views in somewhat more respectable trappings, Mandeville openly put forward his bestial, satanic views in the most explicit fashion. His best-known work is *The Fable of the Bees*, which was first published as a poem in 1705, with the title, “The Grumbling Hive, or Knave turn’d Honest.” In 1714 it was published as *The Fable of the Bees: or Private Vices, Publick Benefits*, followed by a commentary, “An Inquiry in the Origin of Moral Virtue.” Another edition was published in 1723, along with the evil “*Essay on Charity and Charity Schools*.” Still another edition came in 1728-29.

Mandeville attacked the charity schools as a waste of time and worse, for as he said, the longer boys continue in this easy sort of life of learning, “the more unfit they’ll be when grown up for downwright Labour.”

“Going to school is idleness as compared to working,” Mandeville wrote; and he insisted that the wealth of a nation depended on the maintenance of a large class of miserable and impoverished laborers to do society’s drudge work. Any effort to educate them or improve their situation, would only make them less willing to work for a pittance, or to enlist in the military.

The contrast to the idea of the general welfare could not be more stark:

“It is impossible that a Society can long subsist, and suffer many of its members to live in idleness, and enjoy all the ease and pleasure they can invent, without having at the same time great multitudes of people that to make good this defect will condescend to be quite the reverse, and by use and patience inure their bodies to work for others and themselves besides.”

Mandeville’s writings were instrumental in the workhouse “reforms” of 1722, which set up the “privatization” of the previously public workhouses, under which entire families were forced to leave their homes and live—separately—in the workhouses in order to obtain relief.

Mandeville’s fundamental contention, which endeared him to the likes of Adam Smith, and “Austrian School” (now “Chicago School”) founders Friedrich von Hayek and Ludwig von Mises, was that any attempt at a “grand design” or an effort to plan men’s actions for the common good, is folly.

As he argued in *The Fable of the Bees*, man, like the industrious bee, performs selfish actions “in the small”—which lead to the greatest good in the “large”:

Thus every part was full of vice,  
yet the whole mass a paradise.



... their crimes conspired to make them great.  
... the worst of all the multitude,  
did something for the common good.

Von Mises, in his book *Theory and History*, adopts Mandeville's bestial view, stating that during the Enlightenment, eminent philosophers stopped "brooding about the hidden purpose of Providence in directing the course of events," and began to look at things from the standpoint of acting men, rather than from the standpoint of plans ascribed to God or nature. This is best illustrated by Adam Smith, says von Mises, but to understand Smith, "we must first refer to Mandeville."

"The older ethical systems were almost unanimous in the condemnation of self-interest," von Mises wrote. "Referring to the Sermon on the Mount, they exalted self-denial and indifference with regard to treasures which moth and rust corrupt, and branded self-interest as a reprehensible vice. Bernard de Mandeville in his *Fable of the Bees*, tried to discredit this doctrine. He pointed out that self-interest and the desire for material well-being, commonly stigmatized as vices, are in fact the incentives whose operation makes for welfare, prosperity, and civilization."

"Adam Smith adopted this idea," von Mises declares.

Indeed, some 60 years later, the writings of Alexander Hamilton would explicitly repudiate Adam Smith's defense of free trade and the "invisible hand," just as the Francke-Mather correspondence represented the Christian counterposition to the radical egoism of Mandeville's equation of "private vices" with "public virtues."

## Articles of Confederation

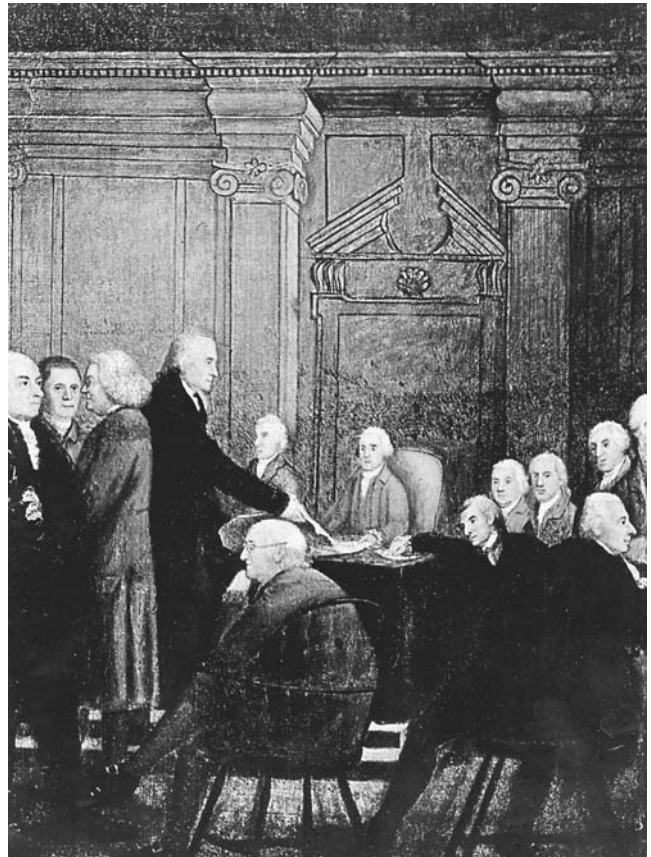
On June 21, 1775, Franklin submitted to the Continental Congress a draft of "Articles of Confederation and perpetual Union."<sup>6</sup> The first draft stated in Article II:

"The said United Colonies hereby severally enter into a firm League of Friendship with each other, binding on themselves and their Posterity, for their common Defense [and Offense], against their Enemies for the Security of their Liberties and Propertys, the Safety of their Persons and Families, and their [common and] mutual and general Welfare." [Brackets indicate words crossed out in the hand-written original—ed.]

Article IV proposed the annual election by each Colony of Delegates to a "General Congress."

Article V laid out the powers and duties of the General Congress, including that: "The Congress shall also make [and propose] such general [Regulations] Ordnances as tho' necessary to the General Welfare, particular Assemblies [from their local Circumstances] cannot be competent to"; and it mentions "our general Commerce, the general Currency, Posts, the armed Forces, and officers, civil and military, of the gen-

6. *Journal of the Continental Congress, 1744-1789*, Vol. 2.



*The Continental Congress adopted the Articles of Confederation in 1777. Although the Confederation could legislate and spend for the general welfare, it did not have the power to directly raise money for the general welfare, instead being reliant upon the states.*

eral Confederation."

Article VI said that "All charges of Wars, and all other general Expenses, to be incur'd for the common Welfare, shall be defray'd out of a common Treasury," but to be supplied by each Colony.

Herein lay one of the greatest weaknesses of the Confederation—that it could legislate and spend for the general welfare, but it did not have the power to directly raise money for the general welfare, instead being reliant upon the good will of the states.

Action on Franklin's draft was among the items of unfinished business when the Second Continental Congress adjourned in December 1775.

On June 7, 1776, the third session of the Continental Congress adopted a resolution containing an early and brief version of the Declaration of Independence, and at the same time, resolved that a plan of Confederation should be prepared and transmitted to the respective colonies. On June 11, a committee was appointed to prepare the Articles. On July 12, the committee brought in a draft, which retained the clause per-

taining to the “mutual and general Welfare.”

But Franklin’s Article V, the broad grant of power to the Congress to provide for the General Welfare, was no longer in the draft. The new draft provided that the Confederation could raise naval forces and make requisitions for land forces, but that it could not impose taxes or duties unless nine colonies assented.

Further changes were made during the next two years. The final Articles of Confederation were submitted to the various states for ratification in November 1777. A committee drafted a circular letter to accompany the draft Articles, which said that although it would be difficult to accommodate the opinions and wishes of so many different states, that “this is proposed, as the best, which could be adopted to the circumstances of all.”

Many objections were raised, and many amendments proposed. They were all rejected, for fear that the Articles would never be ratified. In June 1778, a copy, engrossed for ratification, was prepared; it was ratified by every state but Delaware and Maryland. Delaware ratified in 1779, and Maryland on March 1, 1781—at which point the instrument finally took effect—only seven months before Cornwallis surrendered at Yorktown.

The Articles were the best that could be done under the revolutionary circumstances of 1775-77, but their weakness had become so apparent during the Revolution—the ragged, freezing, and starving Army at Valley Forge in the winter of 1777-78 was the most painful expression of this—that moves were soon under way to amend them, or create a new instrument, which led to the convening of the Constitutional Convention of 1787.

That was, without question, one of the most remarkable assemblages ever known to mankind; unfortunately for us today, its deliberations were conducted in secret, and we have only fragmentary notes of what took place.

## The Constitutional Convention

At the beginning of the deliberations in Philadelphia at the end of May 1787, the Virginia Plan was presented by Gov. Edmund Randolph, which provided for a national government, but under the guise of amending the Articles of Confederation. The first resolution submitted by Randolph, was that the Articles “ought to be so corrected & enlarged as to accomplish the objects proposed by their institution; namely, ‘common defence, security of liberty, and general welfare.’”<sup>7</sup>

Much of the early debate in the Convention revolved around the legislative branches and representation. Speaker after speaker argued that the British system could not be our example. James Wilson of Pennsylvania, for example, is re-

ported to have argued: “The British Government cannot be our model. We have no materials for a similar one. Our manners, our laws, the abolition of entails and of primogeniture, the whole genius of the people, are opposed to it.”

And George Mason of Virginia, for example, in arguing for the election of the larger branch of the legislature by the people, said that the new system had to provide for the rights of every class of the people, that the Framers should “provide no less carefully for the rights and happiness of the lowest than of the highest order of citizens.”

One of the more lengthy reported speeches in this vein was delivered by Charles Pinckney of South Carolina, who noted that there were in the United States “fewer distinctions of fortune & less of rank, than among the inhabitants of any other nation.” While there was much talk about the British Constitution, Pinckney contended that the “most distinguishing feature” of the British Government is “the balance between the Crown & the people,” which cannot be part of the new Constitution of the United States. In fact, he argued, “the people of the United States are more equal in their circumstances than the people of any other Country.”

Pinckney pointed out that the people of the United States were very different from those of any state in either the modern world, or the ancient world. “Our true situation,” Pinckney declared, “appears to me to be this—a new extensive Country containing within itself the materials for forming a Government capable of extending to its citizens all the blessings of civil & religious liberty—capable of making them happy at home. That is the great end of Republican Establishments.”

From time to time, the Convention came close to breaking down in petty squabbles over narrow interests, and the more far-sighted leaders had to remind the participants of their historic responsibility to create a system to serve the *general* interests.

In sentiments later to be echoed by Chief Justice John Marshall, James Madison had to remind the members of the Convention that they were engaged in “framing a system which we wish to last for ages.” Hamilton “concurred with Mr. Madison in thinking we were now to decide for ever the fate of Republican Government; and that if we did not give to that form due stability and wisdom, it would be disgraced & lost among ourselves, disgraced & lost to mankind for ever.”

Franklin at one point urged the assembly to pray and seek divine guidance, lest they succeed no better than did “the Builders of Babel . . . divided by our little partial local interests.” If we fail, Franklin urged, “mankind may hereafter from this unfortunate instance, despair of establishing Governments by Human wisdom and leave it to chance, war and conquest.”

During one of the many contentious debates between representative of the smaller and larger states, Gouverneur Morris of Pennsylvania beseeched the assemblage to consider the general or higher interest. Madison’s notes describe Mor-

7. All quotations are from Madison’s notes, as reported in Winton Solberg, ed., *The Federal Convention and the Formation of the Union of the American States* (1958).

ris's speech:

"He [Morris] came here as a Representative of America; he flattered himself that he came here in some degree as a Representative of the whole human race; for the whole human race will be affected by the proceedings of this Convention. He wished gentlemen to extend their views beyond the present moment of time; beyond the narrow limits of place from which they derive their political origin. If he were to believe some things which he had heard, he should suppose that we were assembled to truck and bargain for our particular States. . . . He wished our ideas to be enlarged to the true interests of man, instead of being circumscribed within the narrow compass of a particular Spot."

It wasn't until July 17, after the contentious issues of the legislature and representation were either resolved or set aside, that the Convention came back to the question of the powers of Congress. Roger Sherman, a Puritan from Connecticut, wanted the legislature to have the power to make laws binding on the people of the United States in all areas concerning the general interests or general welfare of the Union.

On July 26, the various resolutions adopted by the Convention were referred to the Committee on Detail, which was charged with developing a comprehensive draft. However, the draft which was reported out of the Committee on Aug.

6 did not contain the General Welfare clause, either in the Preamble, or under the powers of Congress.

Because of disagreements over whether to give a general grant of powers to Congress, the Committee on Detail instead had produced a listing of enumerated powers. Sherman offered a resolution providing for a general grant of power, which was one of the provisions which went again to the Committee on Detail; on Aug. 22, that Committee recommended that Congress be given the power "to provide, as may become necessary, from time to time, for the well managing and securing the common property and general interests and welfare of the United States in such manner as shall not interfere with the governments of individual states. . . ."

Drawing on the Virginia Plan and also Sherman's motion, this "general welfare" clause then went to the Committee on Unfinished Parts, on Aug. 31. That Committee moved the "general welfare" clause to the first clause, thus providing that the legislature could lay taxes, duties, and impost "to pay the debts and provide for the common defence & general welfare, of the U.S."

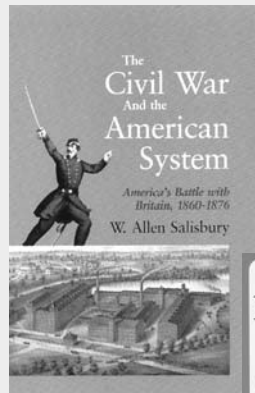
An illuminating anecdote provides a window into the discussion: Charles McHenry of Maryland suggested the inclusion of a power to enable the legislature to erect piers for the protection of shipping and as an aid to navigation. Gouverneur

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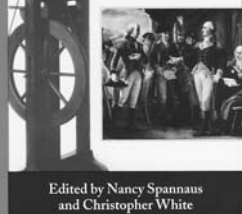


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Morris advised McHenry that this could be done under the General Welfare clause.

The almost-final draft, probably written by Gouverneur Morris, restored the General Welfare clause to the Preamble (following the style of the Articles of Confederation), and repeated it in Article I, Section 8 — where it remained.

### The ‘General Welfare’ Clause

From the time of the drafting of the Constitution up to the present day, the General Welfare clause has been the subject of fierce disputes, with the side of the Founders taken by the “nationalist” faction which supported a strong government with adequate powers to promote economic expansion and industrial growth.

We see these battles raging over the “American System” measures of internal improvements, tariffs, etc. during the early 19th Century and the Civil War; we see the same issue in the elimination of the General Welfare clause in the 1861 Confederate Constitution (see box), and we see it prominently in the 20th Century in the fight over the New Deal. The conflict over the general welfare—absolutely fundamental as to the nature of our Republic—is still raging today.

To examine how the concept of the general welfare was understood by the dominant tendency among the Founding Fathers, the Framers of the Constitution, and leading jurists such as John Marshall and Joseph Story, shows the foolish-

ness of those self-styled modern-day “conservatives” who babble about the “original intent” of the Constitution, as if it had been written by Adam Smith or Friedrich von Hayek.

The definitive exposition of the General Welfare clause was in Hamilton’s “Report on Manufactures,” issued in December 1791.

However, as early as February 1791, Hamilton had treated the subject of the general welfare in his “Opinion on the Constitutionality of the National Bank” — written after Washington’s Secretary of State Thomas Jefferson, and his Attorney General Edmund Randolph, had both declared the creation of a national bank unconstitutional.

In his “Opinion on the Bank,” Hamilton argued that the powers of the national government “ought to be construed liberally, in advancement of the public good,” and that they must be defined by “the nature and objects of government itself.”

Hamilton noted that Jefferson had argued, in opposing the bank, that Congress can only levy taxes to pay the debts, or to provide for the welfare of the Union. But this is no argument against a national bank, Hamilton said. “It is true that they [Congress] cannot without breach of trust, lay taxes for any other purpose than the general welfare, but so neither can any other government. The welfare of the community is the only legitimate end for which money can be raised on the community.”

## The Constitution Of the Confederacy

The rejection of the American System by the British-backed free trade faction, led directly into the treasonous rebellion known as the Civil War. Let us look at what happened to the General Welfare clause and other elements of the American System, when a new Constitution was written for the Confederate States of America in 1861.

First, compare the two versions of the Preamble:

*U.S. Constitution:* “We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

*C.S.A. Constitution:* “We the people of the Confederate States, each state acting in its sovereign and independent character, in order to form a permanent federal government, establish justice, insure domestic tranquillity, and secure the blessings of liberty to ourselves and our

posterity — invoking the favor and guidance of Almighty God — do ordain and establish this Constitution for the Confederate States of America.”

Naturally, they didn’t stop there. They also took out the second element of the General Welfare clause, in Article I, Section 8. With respect to the powers of Congress, the C.S.A. Constitution:

- removed the power of taxation to provide for the general welfare;
- prohibited any measures (bounties, duties or taxes on importations) which would be used “to promote or foster any branch of industry”;
- prohibited appropriation of funds “for any internal improvement intended to facilitate commerce” (except for lights, beacons, and buoys on waterways);

With respect to the Post Office, the C.S.A. Constitution went so far as to restrict the power of Congress so that it could only establish postal routes rather than post roads, and it required that the post office’s expenses be paid out of its own revenues.

The C.S.A. Constitution is still touted by today’s neo-Confederates — who never fail to boast that it eliminated the General Welfare clause, which they claim is the charter for big government and the Leviathan state.

The only restriction, Hamilton continued, is that money thus raised, cannot be applied for any merely local purpose. “The constitutional *test* of a right application must always be, whether it be for a purpose of *general* or *local* nature. If the former, there can be no want of constitutional power. . . . Whatever relates to the general order of the finances, to the general interests of trade etc., being general objects are constitutional ones for *the application of money*” (emphasis in original).

This is further elaborated in the “Report on Manufactures,” in which Hamilton declared that the general interests of Learning, of Agriculture, of Manufactures, and of Commerce, are all within the purview of the General Welfare.

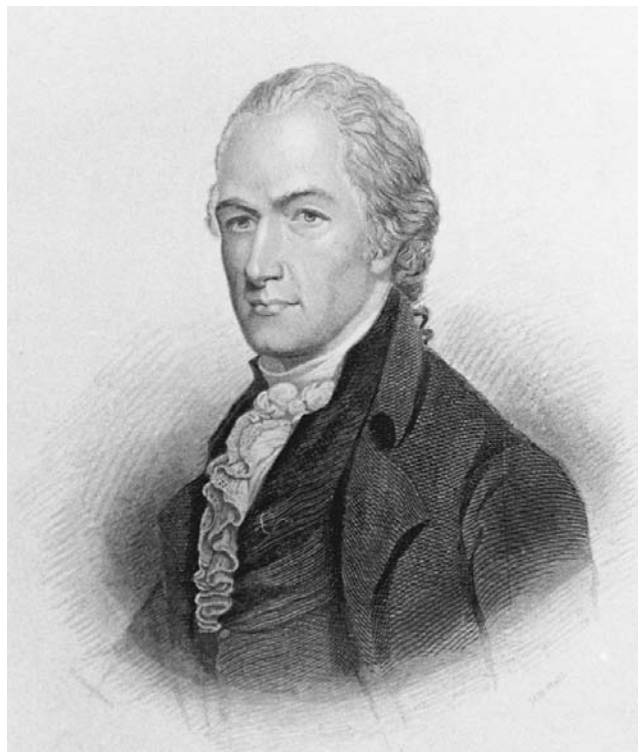
Hamilton argued that the wealth, the independence, and the security of the nation are all connected to the prosperity of manufactures. As opposed to the free traders of the time—or what we would call the “globalizers” today—Hamilton contended that: “Every nation . . . ought to possess within itself all the essentials of national supply. These comprise the means of *Subsistence, habitation, clothing, and defence.*”

“The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of the society. . . . The extreme embarrassments of the United States during the late War, from an incapacity of supplying themselves, are still matters of keen recollection,” Hamilton wrote, urging that this was the next great work to be accomplished, lest the United States again face the same situation in a future war.

Hamilton also strenuously disputed the false but popular notion that “though the promoting of manufactures may be the interest of a part of the Union, it is contrary to that of another part,” particularly as that argument was made with respect to the northern and southern regions of the Union. In fact, Hamilton argued, manufacturing is in the *general* interest of the entire nation, and “the *aggregate* prosperity of manufactures, and the *aggregate* prosperity of Agriculture are intimately connected” (emphasis in original).

Hamilton also addressed the issue of cognition and its relation to the national wealth: “To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. . . . Every new scene which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.”

Hamilton proposed aggressive measures to promote domestic manufacturing, including tariffs, the maintenance of monopolies, the prohibition of some imports, the prohibition of exports of certain raw materials necessary for domestic manufacturing, pecuniary bounties and premiums, a system of regulation of standards and inspections; development of a payments system; and promotion of a system of transportation of goods. As to using public funds, he argued that there is no better purpose “to which public money can be more



Alexander Hamilton’s “Report on Manufactures” laid the foundation for the American System of Economics.

beneficially applied than to the acquisition of a new and useful branch of industry; no Consideration more valuable than a permanent addition to the general stock of productive labor.”

Hamilton declared unequivocally that the Federal government had the right to promote manufactures under the General Welfare Clause of Article I, Section 8. The objects for which Congress can raise money, Hamilton explained, “are no less comprehensive than the payment of the Public debts, and providing for the common defense and the general Welfare.”

He continued: “The terms ‘general Welfare’ were doubtless intended to signify more than was expressed or imported in those which Preceded; otherwise, numerous exigencies incident to the affairs of a nation would have been left without a provision. The phrase is as comprehensive as any that could have been used; because it was not fit that the constitutional authority of the Union to appropriate its revenues should have been restricted within narrower limit than the ‘General Welfare’ and because this necessarily embraces a vast variety of particulars, which are susceptible neither of specification or of definition.”

Hamilton then says that it is left to the discretion of the legislature to determine what matters concern the general welfare, adding: “And there seems to be no room for a doubt that whatever concerns the general interests of *Learning, of Agriculture, of Manufactures, and of Commerce*, are within

the sphere of the national Councils, *as far as regards an application of money*” (emphasis in original).

In his Final Address to the Congress in 1796, George Washington endorsed Hamilton’s view.

Washington noted that “Congress have repeatedly, and not without success, directed their attention to the encouragement of Manufactures,” and he argued that much more needed to be done, especially invoking the idea of the dangers of the country remaining dependent on foreign supply.

Washington also argued that, “with reference to individual, or National Welfare, Agriculture is of primary importance,” and he proposed the creation of institutions for promoting agriculture through “premiums, and small pecuniary aids, to encourage and assist a spirit of discovery and improvement.”

### **Fight over the American System**

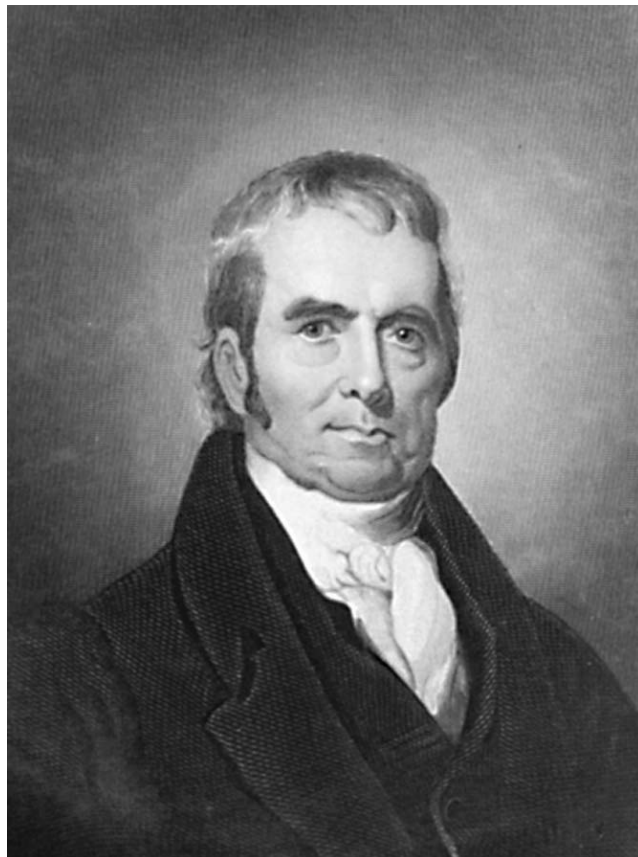
As Hamilton emphasized over and over again, the national government cannot promote the general welfare unless it has the power to do so. This was not a settled issue in the early years of the Republic — indeed, to some, it is still yet not a settled issue today.

It fell to John Marshall, Chief Justice of the United States from 1801 to 1835, to ensure that the Hamiltonian view was established as our fundamental law. Marshall’s 1819 opinion in the case involving the National Bank, *McCulloch v. Maryland*, is a milestone for the confirmation of the national government’s exercise of its power to promote the general welfare — and, it is also clear, to carry out its Manifest Destiny as a Continental Republic, “from sea to shining sea.”

The background of the case was as follows. The second Bank of the United States was created in 1816, after the refusal of Congress to recharter the Bank on the eve of the War of 1812. But the bank was horribly mismanaged, and the Monroe Administration pursued free trade and a veto of internal improvements. By the beginning of 1819, the Bank of the United States had collapsed, insolvencies and bankruptcy fraud were rampant, and the credit system and the economy as a whole were in utter chaos.

The case before the Supreme Court grew out of the attempts by the State of Maryland (among others) to tax the operations of the Bank. In his ruling reaffirming the power of Congress to establish a national bank — and repudiating the attempt of Maryland to destroy it — Marshall drew directly on Hamilton’s arguments in the “Opinion on the Constitutionality of the Bank.”

Marshall began in the logical place — the Preamble to the Constitution. Remarking on the conditions under the Confederation, Marshall wrote, the states themselves were competent to form the Confederation. “But when, ‘In order to form a more perfect union,’ it was deemed necessary to change this alliance in to an effective government, possessing great and sovereign powers, and acting directly upon the people; the necessity of referring it to the people, and of deriving its power



*John Marshall, fourth Chief Justice of the Supreme Court, ensured that the Hamiltonian view was established as our fundamental law.*

directly from them, was felt and acknowledged by all.

“The government of the Union, then . . . is emphatically and truly a government of the people. In form and in substance it emanates from them, its powers are granted by them, and are to be exercised directly on them, and for their benefit.”

(If this has a familiar echo, it should. By some accounts, Abraham Lincoln’s “of the people, by the people, for the people” is derived directly from Marshall’s opinion in the bank case.)

Against the so-called “strict constructionists” (or nominalists, we could call them), Marshall argued that the nature of a Constitution is such “that only its great outlines should be marked, its important objects designated,” and that everything else flows from that. Otherwise, a constitution would contain such an immense amount of detail, that it would be nothing but a legal code, “and could scarcely be embraced by the human mind.”

Thus, although we don’t find the word “bank” or “incorporation” among the enumerated powers of government, he writes, we do “find the great powers to lay and collect taxes; to borrow money; to regulate commerce; to declare and conduct war; and to raise and support armies and navies.”

The happiness and prosperity of the nation require not only that the general government have ample powers, but that it have ample means for their execution. “Throughout this vast republic, from the St. Croix, to the Gulf of Mexico, from the Atlantic to the Pacific, revenue is to be collected and expended, armies are to be marched, and supported.” Are we to adopt a construction of the Constitution, he asks, that would make it impossible to transfer revenues from one part of the county to another?

(Interestingly, this expansive statement is delivered just at the time of the Onis Treaty, concluded by John Quincy Adams with Spain, which was part of Adams’s “Manifest Destiny” plan for a U.S. continental republic.)

From there, Marshall develops the critical point: that the Constitution confers upon Congress all the powers “necessary and proper” to carry out its purposes.

The subject at issue, Marshall writes, “is the execution of those great powers upon which the welfare of a nation essentially depends.” Those who granted those powers, certainly intended to ensure their beneficial execution. “This provision is made in a constitution intended to endure for ages to come, and, consequently, to be adapted to the various crises of human affairs.”

Finally, Marshall comes to his conclusion—which is so crucial for the exercise of the General Welfare clause:

“Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are constitutional. . . .”<sup>8</sup>

Another authoritative source, for an understanding of how the general welfare was understood in the first part of the 19th Century, is Joseph Story’s *Commentaries on the Constitution*, first published in 1833. Story was from Massachusetts, and originally opposed the Federalists, but he came to be John Marshall’s strongest ally on the Supreme Court, and attempted as best he could to carry on Marshall’s work after

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8. The “necessary and proper” clause (sometimes called the “elastic” clause), and the General Welfare clause have always gone hand-in-hand. This was acknowledged, in modern times, in the landmark *Buckley v. Valeo* case in 1976, in which the Supreme Court upheld the public financing of Presidential elections on grounds of the General Welfare clause.

Harkening back to the key 1936-37 Supreme Court decisions which upheld New Deal legislation based on the General Welfare clause, the Supreme Court said in the 1976 case that in passing the matching funds provision for Presidential primaries, “Congress was legislating for the ‘general welfare’ — to reduce the deleterious influence of large contributions on our political process, to facilitate communication by the candidates with the electorate, and to free candidates from the rigors of fundraising.”

In rebutting the arguments by the opponents of the campaign financing law, the Supreme Court said that the General Welfare clause is not a limitation on Congressional power, but: “It is rather a grant of power, the scope of which is quite expansive, particularly in view of the enlargement of power by the Necessary and Proper Clause”—and here the Court cited Marshall’s opinion in the bank case.

Marshall’s death.

In his discussion of the Preamble, Story notes that the Preamble does not confer any substantive powers to the central government, but rather, it is a statement of intent and purpose, which can certainly be called upon in interpreting other elements of the Constitution. He then reviews the six objects spelled out in the Preamble.

In his discussion of promoting the general welfare, Story gives as examples: tariffs (which the states cannot do effectively); the collection, distribution, and expenditure of revenue; internal improvements, such as roads and canals which are much better undertaken by the general government and the post office.

Story observes that the separate states cannot bring into being any great or comprehensive plan for the general welfare; agriculture, commerce, and manufactures may each have to give up something, but each will benefit from a general system, as they have already. An unlimited commerce among states, he asserts, is a blessing of almost inconceivable value; each then looks after the interests of all, rather than its own narrow territory.

### FDR’s ‘New Deal’

Strange as it may seem, it was not until 1936, that the Supreme Court based a ruling explicitly on the General Welfare clause. In the first such case, *U.S. v. Butler*, the Court invalidated the Agricultural Adjustment Act (AAA), in a case challenging crop-reduction payments financed by a processing tax.

In May 1935, the Supreme Court had struck down the National Industrial Recovery Act, and now it took aim at the AAA. Arguing before the high court, Solicitor General Stanley Reed urged that the General Welfare clause of Article I, Section 8 should be broadly construed to encompass whatever was conducive to the national welfare. And Reed argued what seems obvious, that the agriculture crisis was a *national* crisis. But that was not so obvious to the Court, which held that agriculture was “a purely local activity.”

The majority on the Court said that, yes, the General Welfare clause is a broad grant of power, but that the crop-reduction scheme was particular, not general, and that regulation of agriculture was outside the powers of Congress, as a power reserved to the states.

In a succession of rulings, the Supreme Court determined that agriculture, manufacturing, construction, coal mining, and almost any form of economic activity, were *local* and beyond the realm of Federal regulation, as were the wages and working conditions of those employed in those activities. It seemed for a short time that the Court was saying that the states *could* regulate such activities, but then the Supreme Court struck down a New York State minimum-wage law as also being unconstitutional.

This was the situation Roosevelt faced as he began his second term, and what led him to propose his scheme to “pack



*President Roosevelt's moves to change the composition of the Supreme Court, cleared the way for the May 1937 Court rulings affirming the New Deal, on the basis of the General Welfare clause.*

the Court,” to change its composition. He proposed this shortly after his Second Inaugural Address, delivered on Jan. 20, 1937 — the address best known for his exclamation that “I see one-third of a nation ill-housed, ill-clad, ill-nourished.”

FDR described the situation at the time of his first inauguration, four years earlier, and then recalled why the Constitution had been written and a strong Federal government established:

“We of the Republic sensed the truth that democratic government has innate capacity to protect its people against disasters once considered inevitable, to solve problems once considered unsolvable. . . . We refused to leave the problems of our common welfare to be solved by the winds of chance and the hurricanes of disaster. . . .

“This year marks the one hundred and fiftieth anniversary of the Constitutional Convention which made us a nation. At that Convention our forefathers found the way out of the chaos which followed the Revolutionary War; they created a strong government with powers of united action sufficient then and now to solve problems utterly beyond individual or local solution. A century and a half ago they established the Federal Government in order to promote the general welfare and secure the blessings of liberty to the American people.

“Today we invoke those same powers of government to achieve the same objectives.”

Two weeks later, determined to find a way to overcome the obstructions placed in his path by the reactionary Justices who were blocking every effort of the Federal government

to address the crisis, FDR proposed his plan to reform the Supreme Court.

Roosevelt took his case against the Supreme Court directly to the people, in a Fireside Chat on March 9. He warned that there was a danger of another 1929 crash, and said that national measures were necessary prevent this and to complete the recovery program, and that these were measures that only the national government could undertake.

FDR urged the people to re-read the Constitution, saying that, “Like the Bible, it ought to be read again and again.”

“It is an easy document to understand when you remember that it was called into being because the Articles of Confederation under which the original thirteen states tried to operate after the Revolution, showed the need of a national government with power enough to handle national problems,” the President told the nation.

“In its Preamble, the Constitution states that it was intended to form a more perfect Union and promote the general welfare,” Roosevelt said, adding that the powers given to Congress could be best described as being “all the powers needed to meet each and every problem which then had a national character and could not be met by merely local action.”

“But the framers went further,” FDR continued. “Having in mind that in succeeding generations many other problems then undreamed of would become national problems, they gave to Congress the ample broad powers ‘to levy taxes . . . and provide for the common defense and general welfare



of the United States.’ ”

That was the underlying purpose of the patriots who wrote the Constitution, Roosevelt went on, “to create a national government with national power, intended, as they said, ‘to form a more perfect union . . . for ourselves and our posterity.’ ”

But, said Roosevelt, this is now being thwarted by the courts, so to “save our national Constitution from hardening of the judicial arteries,” he presented his bold plan.

### Hamilton Vindicated

As it turned out, Roosevelt’s call to arms was sufficient to reverse the nation’s course. In May 1937, the Court issued two rulings on the same day, affirming New Deal programs on the basis of the General Welfare clause. (“The switch in time that saved nine,” it has been called.)

First, the Court upheld the unemployment tax and compensation provisions of the Social Security Act, in deciding the case *Steward Machine Co. v. Davis*. Associate Justice Benjamin Cardozo cited the magnitude of unemployment, noting that the states had been unable to give the requisite relief, and that the unemployment problem “had become national in area and dimension.”

“There was need of help from the nation if the people were not to starve,” Cardozo wrote. “It is too late today for

the argument to be heard with tolerance that, in a crisis so extreme, the use of the moneys of the nation to relieve the unemployed and their dependents is a use for any purpose narrower than the promotion of the general welfare.”

At the same time, again citing the General Welfare clause, the Court upheld the old-age benefits provisions of the Social Security Act. In this case, *Helvering v. Davis*, Justice Cardozo expressly adopted the Hamiltonian view of the general welfare power, as opposed to that of Madison.

“The conception of the spending power advocated by Hamilton and strongly reinforced by Story has prevailed over that of Madison,” Cardozo wrote. He said that in response to the nationwide calamity that began in 1929, Congress had enacted various measures conducive to the general welfare, including old-age benefits and unemployment compensation. Only a national, not a state, power can serve the interests of all, Cardozo declared.

Thus was proclaimed, a long-overdue vindication of the determination of the dominant group of the Founding Fathers and the Framers of the Constitution, and of all those who had gone before, in the American colonies and in Europe, to create a republic based on the concept of the general welfare.

*This article was first published in New Federalist newspaper, May 15, 2000.*

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

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

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## Bush and Sharon Put Nuclear Warfare Option on the Table

by Dean Andromidas

Edward Djerejian, former U.S. Ambassador to both Israel and Syria and currently director of the James Baker III Institute, has become the first leading U.S. foreign policy figure to warn unequivocally that the danger of a new Middle East war is imminent.

In an interview with the French daily *Le Monde* on April 24, Djerejian said, "The situation in the Middle East has become very dangerous. There exists a real risk of escalation, and this can lead to a vast armed conflict. I am convinced that neither the Arabs nor the Israelis want this. But in this region, a spark can suffice, such that the violence expands into a large-scale conflagration, even if none of the parties concerned wanted it. That is the greatest danger."

Djerejian, who reportedly refused a position in the Bush Administration, despite his closeness to former President Sir George Bush, warned that it is "absolutely necessary" to prevent a "series of chain-reaction events, which provoke escalation, and lead to a new Israeli-Arab war." He said that he believed that this is Secretary of State Colin Powell's overriding concern.

But, until Ariel Sharon is removed as Prime Minister of Israel, the perception given by the media and U.S. government officials that the Bush Administration is "constraining" Sharon, is wishful thinking. Backed by President George W. Bush, Sharon has made it clear that he believes Israel's vast military superiority in conventional and nuclear arms affords Israel a "window of opportunity" for a "military solution" as an alternative to compromise and peace. This is confirmed by Sharon's continued attacks deep into Palestinian-controlled territory in the Gaza Strip and West Bank, despite slaps on the wrist by Secretary of State Powell because of Sharon's attempts to reoccupy the Gaza Strip. At the same time, Sharon has followed up the recent bombing of Syrian military bases

in Lebanon by more threats, as witnessed by bellicose statements by Israeli Defense Minister Benjamin Ben-Eliezer, that Israel was "delivering a message to Damascus."

On April 20, Lyndon H. LaRouche, Jr. issued a warning of the possibility that Prime Minister Sharon could launch a nuclear strike, with the support of the Bush Administration, against a targeted Middle East country (see memorandum, in this issue). The need for such a warning is confirmed not only by recent developments, but also by the fact that powerful circles both in Israel and within the Anglo-American establishment in and around the Bush Administration are already calculating on the "not improbable" use of nuclear weapons. Consider the following.

### **Nuclear Weapons Policy**

Sharon, during his first official meeting with President Bush on March 21, discussed Israel's nuclear weapons policy. Such a discussion has been standard procedure for every new Israeli Prime Minister, and has the aim of renewing the unwritten "nuclear understandings" between the United States and Israel. Israel is ostensibly will not publicly reveal its nuclear capabilities, and in return the United States will maintain the fiction that Israel is not the world's only "rogue state," with an undeclared nuclear arsenal estimated to include up to 400 nuclear weapons. This discussion was held behind closed doors, without the presence of anyone except Sharon and Bush.

Even prior to Sharon's ascent as Prime Minister, Israel signalled its willingness to activate its nuclear capability during the current "Al Aqsa Intifada." On Oct. 24, 2000, Israeli Army radio announced that the Tekuma, one of three German-built Dolphin class submarines, had been rushed from its sea trials near Germany to Israel for "security reasons." Since it

had been widely reported in the international media that these submarines are armed with nuclear-tipped cruise missiles, the move was seen as a signal that Israel is preparing to deploy its nuclear capabilities in the face of widespread Arab support for the Palestinians. This was only a few weeks after Sharon himself ignited the current Intifada with his march on the Al Haram Al Sharif/Temple Mount, whose mosques are among Islam's most holy sites.

In reporting these developments at the time (see *EIR*, Nov. 10, 2000), we warned that the activation of the nuclear war option would require a wide political-military consensus. The current national unity government led by Likud leader Sharon and including Labor's Shimon Peres as Foreign Minister, indicates that this consensus is already in place.

A similar signal was sent on April 22, with a report in the London *Sunday Times*, that Israeli Brig. Gen. Itzhak Yaakov (ret.), who once headed the Israeli weapons research program, and therefore oversaw its nuclear weapons program, was arrested for passing Israeli military secrets to unauthorized persons. Predictably, his arrest fuelled widespread speculation that it was related to his knowledge of the Israeli nuclear program. Since the *Sunday Times* has been the leaksheet of choice for the Mossad and Israeli intelligence circles when they want to signal their military intentions, one may presume that the generation of this speculation was intentional, serving as a warning that Israel has nuclear weapons and is prepared to use them.

### **Anglo-American Scenarios**

Anglo-American policy circles are already calculating on Israel's use of its nuclear option within a war scenario involving Iraq, Iran, and other so-called "rogue" states allegedly in possession of "weapons of mass destruction," including biological and chemical weapons.

A senior military-intelligence source, when briefed on the nuclear war danger, readily agreed, and proceeded to spin out a nightmare scenario. The source, who served several years in the British Ministry of Defence as an expert in biological and chemical warfare, said: "The real issue, behind all the talk you are hearing about the dangers of new disease pandemics, is that, in the last five to seven years, biological warfare has become a real threat. Before that, it was an unmentionable name, but now, I tell you from hard knowledge, it is a real threat."

He said, "Think of Israel, of a city like Tel Aviv. All that has to happen is that some anthrax is left in a garbage can, or is in a suitcase in a bus, and is let loose. This is all taken very seriously, not only in Israel but here in Britain, certainly in America, and in Europe." After alleging that Iraq would be the prime suspect in such an attack, the source declared, "If this kind of stuff is let loose in Tel Aviv, the Israelis will let their nukes fly. I know for a fact, that [U.S. National Security Adviser Condoleezza] Condi Rice and Colin Powell are very worried about all this."

A similar scenario, or, more likely, a self-fulfilling prophecy, coming from Washington, was aired in a commentary in the April 25 *International Herald Tribune* and the *Los Angeles Times*. Penned by Charles Duelfer, former deputy chairman of the United Nations Special Commission (UNSCOM) on Iraq, and entitled "From Some Rogue Labs Come Poison Weapons," it accuses Iraq of developing poison weapons with the intention of creating outbreaks of diseases, like the current hoof and mouth epidemic wracking Britain. Such attacks, Duelfer says, would be "an act of war."

Duelfer scribbles, "Consider a regime such as Iraq's, which has demonstrated a commitment to developing biological weapons." Such a nation might "find it advantageous to strike anonymously and biologically by spreading an economically devastating disease or a slow-acting toxin."

Duelfer is currently a visiting scholar at the Center for Strategic and International Studies at Washington's Georgetown University and is a cohort of his former boss and former UNSCOM chairman, the notorious Richard Butler, who is now "diplomat in residence" at the New York Council on Foreign Relations. Both are in the forefront of the anti-Iraq campaign and are committed to the overthrow of Saddam Hussein and the dismemberment of Iraq.

Unless a concert of political forces within the United States and internationally moves to stop this Bush-Sharon axis, any number of provocations could unleash the "chain-reaction events" that could lead to nuclear conflagration. While a terrorist attack, including the bombing of the mosques on the Al Haram Al Sharif/Temple Mount by Jewish fanatics, could light the fuse, the same result would be the inevitable result of allowing the current state of affairs to continue.

### **Guerrilla Warfare**

For weeks now, an early collapse of the Palestinian National Authority, under the concentration camp-type conditions being imposed by Israel's economic and military blockade, is being openly discussed throughout the Middle East. In such a situation, guerrilla war, with clandestine support from outside the territories, would break out throughout the territories. Already, Israel is claiming that the Lebanese guerrilla group Hizbollah, with Syrian and Iranian backing, has been conducting operations within the West Bank and Gaza. Such allegations, whether true or not, could serve as a pretext for Sharon's own "Jordan is Palestine" war plan, in which the masses of Palestinians, in the face of Israeli tanks and artillery, would flee into the neighboring Arab states. If implemented, such a war plan would lead to the collapse of one or more of these governments, which would inevitably lead to a war of attrition comparable to the 1982 Lebanon war, but this time on the Syrian, Jordanian, and Egyptian fronts as well.

At that point, there would be extreme danger that Israel would "let the nukes fly," with Baghdad or Tehran as the most likely targets.

# The Insanity of Bush and Sharon: The Bentham Syndrome

by Lyndon H. LaRouche, Jr.

April 21, 2001

The charge of insanity to be made against both President George W. Bush and Israel's "Mega" minister Ariel Sharon, is that, considered either separately, or in their present combination, they are, functionally, clinically insane. The sudden spate of hysterical attacks on President Bush's Secretary of State Colin Powell, from the London *Telegraph* and KKKatharine Graham's *Washington Post*'s concert of orchestration of press inside the U.S.A., only echoes the murderous, "bipolar" quality of hysteria, which both madmen have bestirred among Bush's and Sharon's versions of a "Goebbels" press following.

That is to emphasize, that each, and both combined as one, is a clinical model, like Adolf Hitler's Nazi regime, of the Nietzschean existentialist principle of "the triumph of the (arbitrary) will." Having adopted a course of action, they, together with that collection of wild-eyed gnostic cults which form the hard core of the Bush Presidency's social base, will pursue that, as what they, like a secret meeting of mafia bosses, or the *Washington Post* crowd, may call a "done deal." It will be a "deal" done in a way which is in willful disregard for the consequences of their actions, either for the welfare of the U.S. economy and our citizens, or the peace of the world.

The loonier their decision is, the more likely it will be made, and the more hysterically they will push it through against any and all reason, unless you act to prevent this. Under President Bush, things will never become better, until they first become much worse.

The financial and economic policies of both that self-discredited desperado, Federal Reserve Chairman Alan "Ayn Rand" Greenspan, and of the inner circles of President Bush, typify a common, again Nietzschean, quality of disregard for what should be the obvious short-term economic, social, and political consequences of their desperately enforced, lunatic decisions. The lunatic degree of idiocy shown by panic-stricken Greenspan's latest drop in the interest-rate, is an example of what the financial speculators' sheer terror will cause them, like the legendary lemmings, to do.

However, neither of that particular pair of Nietzschean "conservative revolutionaries," the infinitely greedy Presi-

dent George W. Bush, nor Sharon, are, in any sense of the term, self-made men, financially or otherwise. They are merely the carriers of a disease, like mad-cow disease, which they did not invent, the spread of that mass-murderous quality of insanity which their current behavior expresses.

If we wish to halt the deadly pandemic they are spreading, we must locate the exact source of the mass-murderous insanity presented by the relevant symptoms: for their case, as for the cases of Thatcher's Britain's launching of policies leading into the spread of BSE. To give that sickness an historically, precisely accurate name, recognize it as "The Jeremy Bentham Syndrome," as the "Open Conspiracy" madmen, the Benthamite pair of H.G. Wells and Bertrand Russell, typify the very worst of the numerous evils which the past century has bequeathed to the present one.

That connection, "The Bentham Syndrome," is not only an accurate description — is not only the most precise historical vantage-point for understanding the Bush-Sharon phenomenon; it is indispensable for a clear conception of the roots of the problem threatening humanity as a whole at this moment.

## Bentham, Wells, and Russell

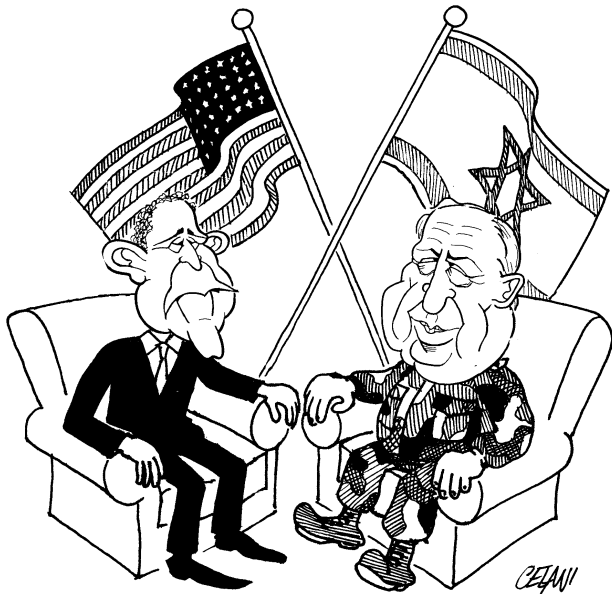
The general, pathological phenomenon of which the current Bush Presidency is, historically, but one recent expression, is the determination of what had been, since the days of the medieval alliance of the imperial maritime power of Venice with the landed Plantagenet pestilence, a Venice-centered opposition to the struggle to bring forth modern sovereign nation-states, as the alternative to both the model of the Roman Empire and ultramontane forms of feudal order in western Europe.

The relevance, and the practical efficiency of this historical connection, is usually beyond the comprehension of those relatively historically illiterate persons who are typified by the majority among recent generations' graduates from our universities. Nonetheless, diseases unseen to the illiterate's eye may kill the unwitting, diseases whose existence they may hysterically deny. So, today, what people stubbornly refuse to know, is, most often, that which will hurt them the most.

No political figure, or thoughtful citizen of the U.S. today, would be so foolishly reckless as to proceed politically without improving his or her education on precisely the following leading points respecting the realities of modern European history in general.

The issue is, in purely factual terms, really quite simple; as the fellow says, "Once you get the hang of it," you may understand how to act more effectively.

The known history and pre-history of mankind, whether in so-called "primitive" or civilized societies, up to modern times, was dominated almost totally, throughout our planet, by the rule of a relatively small portion of the population over a many, the latter of which were reduced to the virtual status



*“They undermisesestimate us!”*

of kept, herded, used, and culled human cattle. This was the case of the ancient cultures of Mesopotamia, of ancient Rome and Byzantium, and the forms of feudal order which prevailed in Europe, from the collapse of Rome in the west, until the first emergence of the modern sovereign form of nation-state, in Fifteenth-Century France and England.

Since that latter time, all of the crucial conflicts within today’s now globally extended modern European civilization, have been the result of the bloody-handed determination, by ruling oligarchies, to prevent or suppress any form of government which is premised upon the supreme principle of universal law known to the Preamble of our Federal Constitution as the promotion of the general welfare, of the nation, all of its people, and their posterity.

Since the American Revolution of 1776, the principal adversaries of the existence of nations committed to the principle of the general welfare, have been the globally extended British monarchy and the pro-feudalist “conservatives,” typified by the infamous Prince Metternich; the conservatives sprung from the Habsburg-centered Holy Alliance’s ultra-reactionary, traditionally Venice-controlled, feudal princely system of continental Europe.

Thus, inside the U.S. today, the reflection of that continuing conflict between the republican good of Benjamin Franklin’s leadership, and the oligarchical evil of those treasonous circles typified historically by Manhattan’s Aaron Burr, has been the issue of the struggle between those patriotic Presidents, such as John Quincy Adams, Abraham Lincoln, and Franklin Roosevelt, who defended the principle of the general welfare, and those who, like the right-wing Republican faction today, are determined to eradicate the Constitution’s prin-

ciple of the “general welfare,” in favor of an implicitly fascist, oligarchical dogma called “shareholder value.”

The Bush faction’s private war, under the banner of Enron, against the human race, is an example of the fascist tendency of practice inhering in that pro-oligarchical notion of purely animalistic greed, known as “shareholder value.”

The proximate origins of the conduct of the obviously unwitting President George Bush, are located in the British monarchy’s 1763-1789 campaign to crush the independence of the North American English colonies and their United States. The central figure of that anti-American British reaction, was the sometime Prime Minister of Britain, Lord Shelburne, he the chief political agent of the Barings bank controlling the British East India Company, and paymaster for not only most of the members of the British Parliament, but, according to plausible reports, King George III, as well.

Among the lackeys employed and controlled by Shelburne, were the famous, morally deranged plagiarist of the French Physiocrats, Adam Smith, the historian Gibbon, and the head of the equivalent of modern MI6, the “secret committee” of the British Foreign Office, Jeremy Bentham. It was Shelburne protégé Bentham, who conducted, from 1782-1783 onward, the evolution of the foreign-policy practice of the British monarchy. Lord Palmerston, the controller of the revolutionary organizations known as Palmerston agent Giuseppe Mazzini’s “Young Europe” and “Young America,” laid the principal foundations for all of the horrors which the British monarchy, its Habsburg-linked accomplices, and its minions have bestowed upon the Americas and continental Europe since Prime Minister Shelburne’s 1782-1783 negotiations of provisional treaties of peace with the U.S. and France.

The pivotal figure, who bridges the connection from Bentham, to the “Open Conspiracy” of Wells and Russell, to the genesis of the lunacies of practice of Bush and Sharon, is Bertrand Russell’s racist grandfather, Lord Palmerston’s ally in support of the Confederacy, Lord John Russell. The chief modern expression of that Bentham “secret committee” which organized and directed the 1789-1794 Jacobin Terror in France, is the Fabian Society out of which plebeian lackey H.G. Wells and aristocrat Bertrand Russell developed what became known publicly by them, in 1928, as Wells’ published draft of his proposal for an Open Conspiracy.

Bush and Sharon are to be recognized as merely tools of that Open Conspiracy, as Adolf Hitler and his Nazi bonzes were merely tools of the neo-feudalist “conservative revolutionary” cult of Romantic neo-feudalism which selected, trained, and created Adolf Hitler himself. Read Wells’ own “Mein Kampf,” and either act to defeat it, or weep at your own foolish cowardice for failing to do so.

### **The Program Behind Bush-Sharon**

Now, read Wells’ fascist manifesto for world government, as it was heartily and publicly endorsed and joined



*“To give that sickness an historically, precisely accurate name, recognize it as ‘The Jeremy Bentham Syndrome,’ as the ‘Open Conspiracy’ madmen, the Benthamite pair of H.G. Wells (left) and Bertrand Russell (above), typify the very worst of the evils which the past century has bequeathed to the present one.”*

by Bertrand Russell, who continued that conspiracy for the remainder of his wretched life. In Wells’ own published words, that conspiracy is as follows:

1. The complete assertion, practical as well as theoretical, of the provisional nature of existing governments and of our acquiescence in them.
2. The resolve to minimize by all available means the conflicts of these governments, their militant use of individuals and property, and their interferences with the establishment of a world economic system [deregulation, “globalized free trade,” “shareholder value”].
3. The determination to replace private, local, or national ownership of at least credit, transport, and staple production by a responsible world directorate [World Trade Organization].
4. The practical recognition of the necessity for world biological controls, for example, of population and disease. [This is the program adopted by Adolf Hitler and by the Club of Rome and World Wildlife Fund. This is also the policy behind the Bush Administration’s so-called FEMA experiment with control of hoof-and-mouth disease. The anti-vaccination, mass killing of cows in England, and proposed for the U.S.A. itself, is intended as a model for mass killing of those of our citizens deemed infected with a deadly, allegedly uncontrollable infectious disease; perhaps you and your neighbors, soon.]
5. The support of a minimum standard of freedom and welfare in the world.

6. The supreme duty of subordinating the personal life to the creation of a world directorate capable of these tasks and to the general advancement of human knowledge, capacity, and power. [In scholarly literature, this is sometimes described as “universal fascism.”]

From that standpoint, it should not be difficult to understand why foolish, mentally deranged tools such as President Bush and Sharon are being deployed to create mass-murderous, perhaps even nuclear holocausts in today’s Middle East. Past history gives us relevant examples to study.

During the interval July 14, 1789 until the July 29, 1794 execution of Robespierre and Saint-Just, Bentham’s secret committee closely directed the leadership of the continuing Jacobin Terror. This was an operation aimed, by intention, to subvert and destroy not only the forces in France which had been allied with the United States, but to isolate the United States, and thus to crush it. This use of the unleashing of bloody chaos, as a way of bringing about the self-destruction of nations and other

forces committed to the cause of the principle of the general welfare (the common good), has been a recurring practice in modern history, as typified by the way in which the imperial maritime power of financier-oligarchical Venice incited and orchestrated the religious wars of 1511-1648 Europe, for the purpose of destroying the legacy of the Fifteenth-Century Renaissance.

So, the British Foreign Office directed, used, and used up Robespierre, et al. So, the British monarchy sponsored, used, and used up the Adolf Hitler whom London’s Montagu Norman et al. brought to power in 1933. This is the way the British monarchy, aided by Christian Solidarity International, is running genocide against the population of Sub-Saharan Africa currently, through orchestrated insurrections and warfare, as against Sudan. This Jacobin-style use of bloody chaos as a strategic instrument of policy, is what is being deployed internationally, against Brazil and other targets, under the leadership of Anglo-French operative Teddy Goldsmith. This is the motive for the British monarchy’s use of its asset President George Bush, in unleashing Sharon to unleash a genocidal chaos throughout the Middle East and beyond.

As then Secretary of State Madeleine Albright bragged publicly in a 1999 New York City address, she and her father, Josef Korbel, had had their U.S. careers sponsored by the avowed advocates of the policies of H.G. Wells, policies of Wells to which she adhered, in spoken words, and in her practice as Secretary of State, as in the Balkan war of 1999.

The close relationships, and kindred policies of the circles of Korbelt and the household of Zbigniew Brzezinski, and the training of Condoleezza Rice, are typical of the influence in shaping U.S. policies of practice today.

Poor Bush himself, however nasty and mass-murderous, is essentially an emotionally, mentally crippled fool. The most interesting question his policies pose, therefore, is: Exactly who is using that poor dummy, and for what purpose?

Think of my words carefully, and you might understand what the world's crises of today are all about.

## Nuclear War Now?

*In an April 20 intelligence memo regarding developments in the Middle East and Sudan, Democratic Presidential pre-candidate for 2004 Lyndon H. LaRouche, Jr. summarized two urgent and interrelated topics:*

1. The first is the scenario pointing to the possibility, and consequences of Israel's now not-improbable use of nuclear weapons against targeted Middle East nations.

2. The second, is the strong likelihood that President George Bush, acting in concert with the British monarchy, will use U.S. forces to support a large-scale outright invasion of Sudan, an invasion used as the occasion for unleashing a prepared coup d'état inside Khartoum, where a waiting consortium is prepared to replace the elected President when military actions launched from outside might create the circumstances for that.

The added factor in the second case, the Bush Administration's presently escalated strategic targeting of Sudan, is the number of fools herded into support of the British monarchy's pro-genocide-in-Africa lobby, inside the U.S. and London, Christian Solidarity International (CSI), et al., which is typical of the coordinated targeting of both Sudan and Iraq, among other nations at this time. CSI is among the leading London-Washington lobbies for genocide, not only inside Sudan and the Great Lakes region, but throughout Sub-Saharan Africa in general today.

### If Sharon Uses Nuclear Weapons

In the first case, the scenario for possible early use of nuclear weapons by Ariel Sharon's government, consider the following facts.

1. No Arab government is situated or disposed to take on Israel's aggression, by more than diplomatic and related methods at this time.

2. President George Bush has given Sharon backing for launching Middle East warfare, even general warfare. Bush wishes that war and supports it.

3. Under escalated atrocities of the type which Sharon

is determined to unleash, including provocations against the Dome of the Rock, no presently sitting Arab government, excepting that of Iraq, would remain in power. The Middle East would become an ulcer of irregular warfare, akin in implications, to the Spanish resistance against the occupation by Napoleon's troops. Israel's regular military capabilities could not withstand that sort of irregular warfare situation.

4. Thus, the threshold for acts of maximum desperation arises in the generality of the foreseeable future.

5. In that case, Israeli "weapons of mass destruction" are put on the table, even Israel's military arsenal. Admittedly, nuclear attacks are not relevant to warfare, but they are nonetheless weapons of choice for desperate lunatics with doomsday in their eyes.

Since the existential shock-effects of the 1962 Cuba missiles-crisis, the world has assumed implicitly, that the agreements reached among the Soviet Union, the British monarchy, and the U.S. government then, ensured that acceptance of a gradual slide into post-industrial world government "under rule of law" would ensure that, through the aid of such a crisis-management arrangement, the "unthinkable" would never actually happen.

If one takes into account, the impact of that 1962 missiles-crisis, in reshaping, misshaping, and so on, the mind-set of, especially, the adolescent population of that time, and its later progeny, we should recognize what the actual use of nuclear weapons by Israel would do to the psyche of the entire world. Do you wish to speak of "Opening Pandora's Box"? I encourage you to do so, while you still might be able react rationally to the thought.

Agreed, under usual circumstances such an event, even by a U.S. "Mega"-backed Sharon or Netanyahu government in Israel, would not be possible. The notable fact is, therefore, that "usual circumstances" have just gone entirely out of business with the combination of the inauguration of a looney but malicious President George W. "Friedrich Nietzsche" Bush, and with the onrush of the greatest financial collapse in human existence.

In such times as these, given the indelicately unbalanced state of mind of the majority of the government and population of Israel at this time, the unthinkable is the only thing which is likely. Look into the mind of the Sharon government, and the lack of sanity exhibited by Bush and the gnostic religious loonies who are his most important popular base.

In short, it is time for all sane members of the U.S. Congress, to dump the customary, and immoral practice of "go along, to get along." Without a forceful and constructive intervention by the government of the U.S.A. for good, there are no limits to the extremities into which the current Middle East situation might lead the world. The only way a "Battle of Armageddon" could happen now, is if people in the state of mind of the backers of Sharon and Bush might be seized by an irresistible urge to "go all the way," in a Hitler-style exhibition of the Nietzschean will, and thus bring it about.

# British Direct Unholy Alliance To Topple Sudan

by Lawrence K. Freeman

Since the inauguration of President George Bush, following his selection by the Scalia-led Supreme Court, there has been a full-scale mobilization to whip up every section of American society to support the military overthrow of the government of Sudan.

Why are Americans, especially African-Americans, being organized now, to support a military attack on the largest nation in Africa? Despite the significant shortcomings of President Bill Clinton, including his lack of an independent American policy toward Africa, it is the “universal fascist” characteristic of the Bush regime that has given a green light to the nastier, pro-genocide, anti-Africa faction of the Anglo-American establishment to go for the kill, now, against the Khartoum government.

To neutralize opposition to such an overt attack on a black African nation, they have hired or duped known African-American personalities to join this unholy alliance.

The first four months of this year, have seen a plethora of anti-Sudan activity. This includes numerous reports, illegal trips to Sudan, press releases, and Congressional hearings, all aimed at toppling the Khartoum government.

On April 26, Reps. Frank Wolf (R-Va.) and Tom Lantos (D-Calif.) convened an emergency hearing of the Congressional Human Rights Caucus to allow the key instigators of the “Get Sudan” campaign to air their lies. On the first panel were Elliott Abrams and Nina Shea (Freedom House), both from the U.S. Commission of International Religious Freedom (USCIRF). They were followed by former D.C. Delegate Walter Fauntroy (D), talk show host Joe Madison, and Father Michael Perry, who speaks on behalf of the National Conference of Catholic Bishops. Not physically present, but touring the United States at the same time, was the leading proponent of genocide for Africa, British parliamentarian Baroness Lady Caroline Cox, the head of the mis-named Christian Solidarity Worldwide (CSW), and formerly head of Christian Solidarity International. To be polite, we can call the American agents, dupes, and buffoons working for her policy to break up Sudan through civil war, “Cox’s Kindergarten.”

When Abrams, a longtime intelligence operative of Iran-Contra infamy who chairs USCIRF, puts Sudan on the same list of targetted nations as China and Russia, labels Sudan the world’s most “violent abuser of the right to freedom or religion and belief,” and accuses the Khartoum government of genocide against its own citizens in the South, it is clear what is in store for Sudan—and Africa. To round out the

picture, you have Madison, Fauntroy, Jesse Jackson, Sr., NAACP President Kweisi Mfume, and Al Sharpton joining hands with the neo-conservative, so-called “Christian right,” in alliance against Sudan.

Rev. Franklin Graham, one of the darlings of the fundies who gave the invocation at President Bush’s inauguration, said recently: “We should use our economic power to bring this [Sudanese] government down.” After Madison delivered a scathing attack on the government of Sudan, accusing it of slavery and mutilation against its Southern population, he boasted how proud he was to shake hands with (ultra-conservative) Sen. Jesse Helms (R-N.C.) *for his work in Africa*.

Fauntroy recommended that the United States increase its non-lethal assistance to the Sudanese People’s Liberation Army (SPLA), the rebel group run by John Garang, which is responsible for the civil war that is causing so much suffering and misery to the people of Sudan. Although the Catholic Church had not taken an active, high-profile role in the anti-Sudan crusade previously, after a delegation of clergy from the Catholic Relief Services and the Bishops’ Conference returned from a trip to Sudan and Kenya, they have effectively joined the crusade by speaking at Wolf’s and Lantos’s hearings, and at a Center for Strategic and International Studies press conference earlier in the week. Father Perry strongly blamed the North for the war, and for all the atrocities, virtually exonerating the SPLA from charges of human rights abuse, because they are “fighting for their freedom.” He accused the North of “Arabization-Islamization,” and of trying to turn Sudan into an Islamic state, yet he professed to have no problems with the Islamic religion itself.

Not to be left out, is the Congressional Black Caucus. Rep. Donald Payne (D-N.J.), who has led the efforts in Congress, along with Wolf, against Sudan for years, is now beginning to get the support of more members of the caucus. At hearings in March before the Human Rights Subcommittee, Rep. Cynthia McKinney (D-Ga.) asserted, with no basis in fact, that the government was persecuting non-Muslims by torturing and raping thousands, and nailing Christian babies to trees. Delegate Eleanor Holmes Norton (D-D.C.), who is willing to let African-Americans die unnecessarily in her district as a consequence of closing down D.C. General Hospital, has loudly joined in attacking Sudan, along with other Black Caucus members, including Reps. Barbara Lee (D-Calif.) and Gregory Meeks (D-N.Y.).

## Recommendations To Suffocate Sudan

All the groups that are part of the crusade against Sudan hold the government responsible for the war, condemning it for slavery, and for human rights and religious abuses, thereby indicating that it is solely the government’s responsibility to end these practices. Abrams’s USCIRF specifically recommends against reappointing an ambassador to Sudan, but rather recommends a prominent individual who will work to end the “abuses.” They also recommend an increase in assistance to the South, and strengthening economic sanc-



tions, including the removal of Sudan's exports of gum arabic from the exemption list of imports to the United States.

Both the Catholic Church and USCIRF have also targeted Sudan's small but growing oil exports. They complain that although U.S. companies cannot invest in Sudan, other companies, especially oil firms, that do, should not be allowed to sell securities in the U.S. market. Also singled out for special attention are the Chinese and Malaysians, who were part of the initial investment in Sudan's oil industry, and have been part of its success. Another attack they make on Sudan's sovereignty, is the right of the government to develop oil in the South, and to use the proceeds to help defend the nation against Garang's rebellion. One gets the clear impression, that one of the factors driving the move now to topple the government, is the progress Sudan has made in development of its oil, and its improved relations with the international community as an oil exporter.

### **Lady Cox Behind It All**

Lady Cox has been travelling illegally into Sudan for many years in open support of the SPLA. Every African-American, and virtually every Congressman who has been brought to Sudan, has been so directly at the personal hand of Cox. That includes Wolf, Fauntroy, Madison, Sharpton, and a host of others. They have all travelled illegally to Southern Sudan, ignoring the sovereignty of the nation; they have all been protected by the SPLA, have conversed with SPLA leaders, and support the SPLA in one way or the other. All the incredible "slave redeeming" extravaganzas—up to 4,000 slaves "freed," i.e., bought at one place, at one point in time—have been arranged by Cox. No independent effort has been carried out; all have been under the personal orchestration of Cox, or her cronies.

There would be no discussion of atrocities in Sudan without the instigation Cox. There would be no publicity of slavery, without the "purchasing of slaves" pre-arranged by Cox. As a creature of British colonialism, she is intent on destroying the nation of Sudan. As a leading member of the British anti-Africa genocide lobby, she is intent on fomenting a civil war in Sudan, that will spread to the rest of the Horn of Africa and into the Middle East.

Under the Bush Administration, all systems are go for Cox, who travels to the United States frequently, as they are for the "Cox Kindergarten." Abrams even boasted that Secretary of State Colin Powell listens to him on Sudan.

Of course, such an operation against a black nation of 30 million, with a land mass two-thirds the size of the United States, could not succeed without lackeys to whip the African-American population into line. That is where Madison, Fauntroy, et al. come into play. So, why would African-Americans, like Madison, accept this despicable job as Cox's lackeys, risking being blamed for the death of millions of Africans? As of today, they, like the rest of Cox's Kindergarten, have no fear of their conscience in linking arms with the Bush regime and its supporters, in their campaign against Sudan.

## **Is Britain Preparing A Future 'Human Cull'?**

by Mark Burdman

There is growing apprehension among knowledgeable experts in Britain and elsewhere, that formerly "unthinkable" notions, of military forces being utilized to carry out large-scale elimination of human beings under conditions of spread of disease, are now under active consideration among leading circles linked to the British monarchy.

Such apprehensions have been provoked by a startling interview with the April 8 London *Observer* weekly, by Brig. Alexander Birtwistle, the military aide-de-camp to Queen Elizabeth II. Birtwistle is the man who is leading military forces in Britain in the mass slaughter (or "cull") of millions of cattle, in implementation of the Blair government's horribly misguided policy for dealing with the spread of hoof-and-mouth disease (HMD).

In recent weeks, Birtwistle has been paraded in the British media, heralding that his current fight against helpless cattle is similar to his previous campaigns against "the enemy" in times of conflict. In earlier years, he served in Africa, and other parts of the globe.

The highlight of the *Observer* interview, was his declaration, apparently out of nowhere, that, "Yes, I'm a Nietzschean. . . . I mean, all of life is purposeless." The *Observer* headlined the interview, "Man or Superman?" with the subtitle, "The Soldier Winning Cumbria's Grim War on Plague Is Deploying a Secret Weapon—Nietzsche." Cumbria is the region of Britain where there has been the most intense concentration of HMD, and where the military-led cull has been most intensive.

### **'Declaration of War on the Masses'**

It is unusual for a military figure, especially one so senior in Her Majesty's service, to make such "philosophical" pronouncements publicly. It is all the more ominous that he would do so, in favor of the ideas of an anti-human fanatic like Friedrich Nietzsche.

For very good reason, sober-minded British observers have told *EIR* that they regard Birtwistle's comments as a "signal," that what is now being done with cattle in Britain is a "test run" for future treatment of human beings, should dangerous infectious diseases spread in Britain or elsewhere. Such an eventuality is certainly not inconsistent with Royal Consort Prince Philip's passionate desire to see human population radically reduced.

Friedrich Nietzsche (1844-1900), who deservedly ended

his life in a mental hospital because of a derangement likely caused by syphilis, was the notorious chief ideologue of the 1920s Conservative Revolution, the which spawned the Nazis, among other atrocities. His admirers have included not only leading members of Adolf Hitler's inner circle, but many leading intellectual figures in what is known as the "Western liberal tradition." Motivated by a pathological hatred of Christianity and humanism, he declared that "God is dead," and announced the end of all moral standards. He created the ideology of the "superman," who is "beyond good and evil," and who would lead a master race, against what he regarded as the weak and inferior "masses."

*EIR* Founder Lyndon LaRouche has frequently identified Nietzsche, together with Britain's Bertrand Russell and H.G. Wells, as among the leading progenitors of what was to become, in the 20th Century, the political/cultural movements of fascism and the countercultural "New Age."

### **Nietzsche's Admirers**

In 1992, a leading British expert on modern literature, John Carey of Merton College, Oxford University, wrote a groundbreaking book, *The Intellectuals and the Masses*, substantially confirming the basics of LaRouche's polemic. Carey documented that Nietzsche was a major source of inspiration for such genocidalist British writers as D.H. Lawrence, H.G. Wells, and others.

Based on a scan of Nietzsche's writings, Carey chose such quotes: "The great majority of men have no right to existence, but are a misfortune to higher men"; and, a "declaration of war on the masses by higher men is needed."

According to Carey, Nietzsche's leading British disciple was D.H. Lawrence, who insisted: "Let all schools be closed at once. The great mass of humanity should never learn to read and write."

In his *Fantasia of the Unconscious*, Lawrence exclaimed: "Three cheers for the inventors of poison gas."

Carey heavily focussed on the Nietzsche-influenced Wells. In a chapter headed, "H.G. Wells Getting Rid of People," Carey quoted from Wells's 1901 *Anticipations of the Reaction of Mechanical and Scientific Progress upon Human Life and Thought*. Basing himself on the theories of the 19th Century's Thomas Malthus and Charles Darwin, Wells railed against the "great masses of people," whom he called "People of the Abyss," and forecast that the "nation that most resolutely picks over, educates, sterilizes, exports, or poisons its People of the Abyss," will be in the ascendant.

Carey's exposé was favorably reviewed in *EIR* (Mark Burdman, "H.G. Wells and the Roots of British Social Engineering," July 23, 1993).

### **'The Human Foot-and-Mouth'?**

One Scotland-based source, who is very well-connected in British defense circles, and who is familiar with the comments of both LaRouche and Carey on the Nietzsche matter,

told *EIR*, in an April 18 discussion, that what Birtwistle says, should be taken with the utmost seriousness, as he is part of an elite network of "future planners" and "dogmatized, ideologized soldiers" in and around the British Ministry of Defence (MOD).

Indeed, in the 1980s Birtwistle was in the MoD's Directorate of Combat Development, charged with formulating concepts for the future. After 1995, he served on the MoD Central Staff, as a "forward planner on a variety of tasks," according to his official MoD biography.

The Scotland source is convinced that Birtwistle's comments were designed to refer to future plans for human beings.

### **The Influenza Parallel**

In this context, an article in the April 22 London *Sunday Times* should be read with care, because it was the first press account to moot the idea—before dismissing it as unlikely—of a "human cull." Under the headline, "Will Flu Be the Human Foot-and-Mouth?" author Stuart Wavell wrote about a conference the week of April 23 at the Royal Society of London, on the theme of "influenza pandemics."

A participant at the event was Prof. Graeme Laver, an Australian scientist who warned Wavell that Britain is defenseless against the next pandemic:

"It will be like foot and mouth disease—very infectious, spreading rapidly, and it could kill 30% of the population. That's not a figure plucked out of the air. There will be chaos in the country, and no way of stopping it."

Laver moaned that "nobody seems to care," among the ranks of British officialdom, about people dying of influenza, and reported that a drug that is effective against new strains of influenza, Relenza—which Laver himself was central to developing—is not being made available for the general population, with the excuse that it is "too expensive."

Wavell wrote: "It has become fashionable, to compare foot-and-mouth disease to flu. Imagine, then, a malignant influenza virus that behaves like a human variant of foot-and-mouth. It spreads rapidly, bringing illness and death across Britain. It cannot be contained by a policy of mass slaughter: *culling people is not a vote-winner*. . . . Most experts agree, that it is just a matter of time, before this scenario occurs" (emphasis added). Wavell points to the precedent, of the 1918 worldwide influenza epidemic, the which "killed more than 20 million people, sometimes within hours of the first symptoms appearing."

Within 24 hours of its publication, Wavell's story was followed by a report of the first *human* contracting HMD, a disease that is usually assumed not to affect humans. While the man who has contracted it is not in a life-threatening situation, the very fact of such a "species jump," in the midst of a country that is assaulted by mass carcass heaps and funeral pyres for cattle, is a cause for alarm, for those who understand the intent behind the words uttered by Her Majesty's Brigadier Birtwistle.

# 'Soros Shock' Up-Ends Peru Election, Proves EIR and LaRouche Were Right

by Valerie Rush

Peru's ongoing Presidential electioneering was thrown into chaos, when a leading adviser to frontrunner Alejandro Toledo withdrew his support, pulled his family out of Peru, and issued a series of blistering accusations against the candidate. Alvaro Vargas Llosa, son of prominent Peruvian writer Mario Vargas Llosa, gave an explosive hour-and-a-half interview on April 21, to the Peruvian talk show "The Sniper," in which he revealed, among other scandals, that he had arranged a meeting last year between Toledo and mega-speculator George Soros, at which the world's leading financier of drug-legalization had contributed \$1 million to Toledo, to finance his July 2000 "Four Corners March." That march, billed as a "peaceful protest" against the inauguration of then-President Alberto Fujimori's third term in office, turned into an orchestrated mob assault, which left several buildings burned and six people dead.

The meeting between Soros and Toledo had occurred late last July, during the world conference "Towards a Community of Democracies," organized by then U.S. Secretary of State Madeleine Albright, and Soros's simultaneous World Forum on Democracy, in Warsaw, Poland.

Vargas Llosa's revelations precisely confirm *EIR*'s famously public charges of one year ago.

Toledo has admitted to taking Soros' \$1 million, but insists that it was for "the struggle to defend democracy" in Peru, and not for his electoral campaign, "which would be illegal." Toledo campaign loyalist Gustavo Gorriti, who is himself a member of a Soros-financed organization of "investigative journalists," publicly confirmed that he had been at the Warsaw meeting with Soros where the \$1 million was offered, but when asked by the press in what form and to whom the money had been given, he could only say that it went "through non-traditional and very discreet channels."

Stunning though the revelations may be, coming from a former Toledo insider, they are hardly a surprise to Peruvians—or to readers of this magazine. Indeed, all last year, U.S. statesman and economist Lyndon LaRouche and his spokesmen were filling press headlines and the media airwaves in Peru with interviews denouncing precisely what

Vargas Llosa's charges suggest: that Toledo's campaign to bring down President Alberto Fujimori was an operation run through Soros and the global drug-legalization apparatus of "Project Democracy," to reinstall the drug mob in power in Peru. The widely read *Gente* magazine ran four interviews with LaRouche over a six week period, which repeatedly took up the Soros-Toledo issue. In fact, *Gente* has a major feature the week of April 23, 2001, recalling the LaRouche interviews, and tooting their own horn for that "scoop."

## Putting the Drug Mob Back in Power

So familiar are Peruvians with LaRouche's charges, that *Ojo* newspaper in Lima responded to this new scandal with an article entitled "Six Questions for Toledo," which parallels *EIR*'s famous "Ten Uncomfortable Questions for Alejandro Toledo," released by Ibero-America editor Dennis Small during a much-publicized May 2000 trip to Lima.

Heading up those "Ten Uncomfortable Questions" was, "Do you share the thesis of your adviser Diego García Sayán, and of international mega-speculator George Soros, that the war on drugs must be suspended because 'it is causing more damage than drug abuse itself?'" That quote is from an open letter to UN Secretary General Kofi Annan, dated June 1, 1998, which appeared full-page in the *New York Times*, signed by some 600 international "personalities," including Peruvians García Sayán, Mario Vargas Llosa, and Javier Pérez de Cuéllar.

García Sayán is currently Justice Minister under Valentín Paniagua's caretaker government, and Pérez de Cuéllar is Prime Minister and the real "power behind the throne." A very embarrassed Mario Vargas Llosa, a Toledo supporter like the others, has been forced to publicly distance himself from his son's charges.

The second of *EIR*'s "Questions" of May 2000 was: "Do you agree with the documented pro-drug legalization posture of your adviser Diego García Sayán? If not, why do you tolerate him as your adviser? Further, why did you bring him with you to the United States, when you met with representatives of Wall Street and others, including George Soros? Do certain

circles of Wall Street have a special interest in drug legalization in Peru?"

On April 24, the nationally circulated *Ojo* daily continued to air the scandal of Soros' financing of Toledo, with a splashy front-page story on "Who Is Soros?" and an inside article entitled "Economist Lyndon LaRouche Exposes Soros's history." This article quotes LaRouche at length on Soros's dirty background as "a British agent," "a swindler," "a parasite," and "a pirate." "My advice," LaRouche is quoted, "is: Let's put Soros' kind into bankruptcy!" The article is accompanied by a photo of a wounded or dead person lying on the street in the aftermath of Toledo's violent demonstration, captioned: "Contribution: Soros supported Four Corners March."

What has still to surface in the Toledo-Soros scandal, is the fact that the man who first introduced Toledo to Soros, is García Sayán, who, as the current Justice Minister of Peru, is heading up the persecution of the anti-drug, anti-terrorism networks of the overthrown Fujimori government. García Sayán's entire career has been dedicated to the international promotion of drug legalization and limited sovereignty, and

he deploys hand-in-glove with Soros's machine. Both personally and as Executive Director of the Andean Commission of Jurists, García Sayán has not only worked with the non-governmental organization Human Rights Watch, which is funded by Soros, but he also works closely with Ethan Nadelmann, president of the Soros-funded Lindesmith Center for drug legalization. He even invited Nadelmann to Lima in July 1993, to address an Andean Commission of Jurists forum on drug legalization.

Just one week before the Vargas Llosa revelations, a preemptive effort was made to try to discredit LaRouche's authority on the Soros-Toledo connections, by presenting all criticisms of Soros as "anti-Semitic." On April 19, the Peruvian daily *Expreso* published a Letter to the Editor from one Eduardo Bigio, head of the Jewish Community of Peru, as it calls itself. In the context of answering an anti-Semitic article which had appeared several days earlier in *Expreso*, Bigio leapt to the defense of Soros and willfully lied about LaRouche. *EIR* bureau chief in Lima, Luis Vásquez Medina, sent a response to *Expreso*'s editors, which we reproduce in the accompanying box.

## EIR Responds to Slander in Peru

To the Editor:

In your April 19, 2001 edition, you published a letter to the editor signed by Eduardo Bigio, which reads as if it were drafted either outside Peru, or by a totally ignorant person—at least in that part of the letter which repeats a string of transparent lies with regard to Lyndon H. LaRouche, the founder of *Executive Intelligence Review* magazine and an announced 2004 U.S. Presidential candidate.

As anyone who knows the situation in Peru is aware, and as could have been easily verified, LaRouche is not "serving a jail sentence" in the United States at this time, as Bigio falsely asserts. In the last year, LaRouche participated in two much-publicized Lima seminars on the world financial crisis, by live video-conference hook up.

Similarly, Mr. LaRouche is, of course, not an "anti-Semite," as anyone remotely familiar with his policies and outlook well knows.

We share Mr. Bigio's distaste for the overtones of anti-Semitism in the article by Pedro Amado Palacio, which he wrote to complain about. But we were surprised and dumbfounded to read that he used this as an excuse, not only to slander LaRouche, but also to leap to the defense

of George Soros, whom he describes favorably as "a U.S. Jewish financier and philanthropist." Is Mr. Bigio not aware of Soros's famous interview with CBS television on Dec. 20, 1998, where he admitted that, as a youth in wartime Nazi-occupied Hungary, he had "helped in the confiscation of property from the Jews," while pretending not to be Jewish himself?

*EIR* has repeatedly attacked Soros, on two main points:

1. He is a leading financial speculator, who has played a major role in the destruction of entire nations, in Southeast Asia and elsewhere.

2. He is the world's leading financier of drug legalization, and as such, sponsored an open letter to UN Secretary General Kofi Annan, calling for drug legalization—which letter was signed by Justice Minister Diego García Sayán and Prime Minister Javier Pérez de Cuéllar, among others. Now it turns out, that Soros gave \$1 million directly to Presidential candidate Alejandro Toledo to further his cause. At that time, Toledo's main adviser was García Sayán, who arranged the first meeting between Toledo and Soros.

On both of these points, Soros serves the global strategic interests of the British financial oligarchy, and the Queen of England in particular—being one of her personal bankers.

Whose interests is Mr. Bigio serving by putting his signature on a tired slander of LaRouche, and a timely defense of Soros?

Sincerely,

Luis Vásquez Medina, *EIR*, Lima, Peru

# Teddy Goldsmith's Jacobin Terrorists Strike Worldwide

by Scott Thompson

Edward "Teddy" Goldsmith's Jacobin hordes are poised to strike globally, after they significantly disrupted the April 20-22 Summit of the Americas in Quebec City, Canada. As he revealed to a Washington, D.C.-based journalist, Goldsmith is well aware that there is a worldwide economic collapse under way, and it is his intention to turn genuine opposition to "globalization" into a mindless Jacobin rabble.

Thus, people who genuinely oppose "globalization" will be channeled to express their anger in impotent acts of terrorism and rebellion, rather than pursuing the New Bretton Woods policies put forward by *EIR* Founder and 2004 Presidential pre-candidate Lyndon H. LaRouche, Jr.

In this respect, Goldsmith is very much like the British Foreign Office's first head of its "secret committee," Jeremy Bentham, who directed the Jacobin Terror in France. After Robespierre, Marat, and Danton had served Bentham's purpose of murdering the associates of the Marquis de Lafayette, who had brought France onto the side of the American Revolution, they themselves were beheaded. Bentham et al. then worked to bring to power the first fascist dictatorship, under Napoleon Bonaparte (see article by Lyndon LaRouche on the Jeremy Bentham syndrome in this issue).

Over the past two years, Goldsmith's Jacobin terrorists have been active in the streets of the United States, Canada, Britain, the Czech Republic, Brazil, New Zealand, and elsewhere, as the terrorist movement grows both in number and in degree of violence.

Ever since their first actions against the June 18, 1999 Group of Eight (G-8) Summit in Cologne, Germany, which was followed by a total shutdown of the World Trade Organization's Nov. 29-Dec. 3 Ministerial Conference in Seattle, Washington, many of Goldsmith's terrorists have made pilgrimages to Chiapas in southern Mexico. There, they joined forces with the hard-core terrorist army known as the "Zapatistas." Since then, the largely European-based "Black Bloc" umbrella grouping of old-fashioned bomb-throwing anarchists have found fertile ground for recruiting throughout North America, especially through its group known as the Third Position, which includes both members of the so-called left- and right wing. Moreover, Goldsmith's terrorists seem to be coalescing with a re-emergent "New Red Brigades" in Italy, which has issued a manifesto calling for the "anti-globalists" to pick up the gun.

It is known that the future targets of Goldsmith's terrorists include: the semi-annual International Monetary Fund (IMF)-World Bank meeting in Washington, D.C., on April 28-29, where the same forces that converged on Quebec City are gathering under the umbrella of the Mobilization for Global Justice; a major outbreak of terrorism in London on May Day; the next G-8 summit on July 20-21 in Genoa, Italy; and, the September semi-annual meeting of the IMF-World Bank.

## Highly Organized

Goldsmith's terrorists in Quebec City were well organized. As the April 21 *Washington Post* noted, early on April 20, the day that the summit was to open, hundreds of protesters gathered in the basements of Laval University, their main staging ground. There, according to the *Post*, they divided into three groups:

"The red zone was the front line, for those prepared to fight by any means, to get arrested, to tear down the wall. Yellow was a bit farther from the police, for those who favored nonviolent disobedience but would 'offer support' to those in the red zone. Green was for those who wanted to avoid conflict."

The planning meeting was addressed by French populist activist José Bové, who somehow made it into Canada despite an all-points bulletin at every port of entry, because he had faced criminal charges in France for vandalizing a McDonald's restaurant, and who had also partially wrecked a Monsanto plant in Ibero-America. Bové said, "I'm here to say what is happening in the Americas is important for people around the world."

In all, there were some 4-5,000 volunteers, who operated in the terrorist red and yellow zones, while an estimated 30,000 demonstrators were in the green zone. Of the last, many were members of various trade unions in Canada and the United States, including the AFL-CIO, whose president, John Sweeney, had endorsed the action as being "anti-North American Free Trade Agreement."

At approximately 4 p.m. (some two hours before the official opening of the summit), the terrorists struck in the red zone. A pitched battle ensued in which more than 1,000 terrorists, who were wearing black ski masks, helmets, and gas masks, tore down 150 feet of the barricade, while throwing rocks, concrete blocks, a few molotov cocktails, and burning rolls of toilet paper at the riot police inside the barricade. No sooner had the police quelled this group by first forming a phalanx at the breach in the wall, than another group tore down 100 more feet of the barricade.

As a result of the terrorists breaching the barricade, all 34 Western Hemisphere heads of state were placed under heavily guarded lockdown in their hotels. Particularly affected was President George W. Bush, who had to cancel or postpone three major pre-summit meetings with heads of state from among Andean, Central American, and Caribbean nations. The official opening of the summit was delayed by two hours.

On the second day of the summit, the police stationed all

their forces outside the barricade and used water cannons and rubber bullets to keep the terrorists from breaching the barricade once again. However, the red zone terrorists then dispersed throughout the wealthy Saint-Roch district of the city, which was unprotected, where they set some 60 fires and smashed shop windows.

As of that time there had been 90 injuries, including 46 police officers, although none of the injuries were reportedly life-threatening.

According to the London *Sunday Telegraph* of April 22, the most violent action was by members of Black Bloc, who even dragged a police officer out of his car and beat him unconscious with metal bats.

## Where Next?

According to the *Sunday Telegraph*, British authorities are expecting a repeat of the Quebec City violence in London on May Day. The Black Bloc, whose ringleaders were among the 403 arrested in Quebec City, have been planning for major violence, including targetting of major corporate buildings. Among the continental European groups involved in plans for the London rioting is "Ya Basta," an Italian anarchist group that hijacked a train in Italy recently, and many of whose members who were arrested in Quebec City carrying smoke bombs, explosives, and other weapons.

The April 17 London *Times* reported that ringleaders of the May Day events are boasting, on the Internet, that they "will target more than 200 banks, public buildings, shops, and media headquarters. Protest veterans from America and Europe are expected to join the day of actions."

Appearing on Fox TV on April 21, Washington, D.C. Police Chief Charles Ramsey, whose force had been in regular contact with security services in Quebec City, announced that under the umbrella of the Mobilization for Global Justice, hundreds to thousands of the Quebec City demonstrators might participate in similar actions against the IMF-World Bank meeting on April 28-29. Chief Ramsey reported that the D.C. police would put the same mobilization into effect, as during last year's April IMF-World Bank meeting, where 1,300 protesters were arrested. Largely through pre-emptive moves by the police and a pooling of intelligence, the D.C. police never resorted to the use of tear gas or other measures, as in other cities where Goldsmith's terrorists have struck.

## Ever More Violent

In an interview with a Washington reporter on April 19, Goldsmith admitted that two members of the International Forum on Globalization (IFG), a countergang to LaRouche's call for a New Bretton Woods, had been among the chief organizers of the Quebec City events: "I'm not coming, but I believe a lot of my colleagues will be there. There will be people from the [IFG]. I think that two of the Forum people, Tony Clarke and Maude Barlow, are among the main organizers." According to a spokesman for the Forum, Clarke and

Barlow are both Canadian board members of the IFG, which is heavily funded through the Goldsmith Foundation, and Goldsmith is also a board member of the IFG.

In the interview, Goldsmith endorsed hard-core terrorist groups that are beginning to join the "anti-globalist" Jacobin movement, such as the Zapatistas of Mexico: "Well, I mean the Zapatistas. The Zapatistas' Mr. Marcos ['Subcomandante Marcos'] is an extremely reasonable man. If you read his manifestos and the documents he produces, he's a moderate. He's a very sensible man who believes in democracy, and I don't see how one can object to him."

After characterizing the Zapatista hard-core terrorists as "democrats," Goldsmith said: "You're going to get people who are going to be very, very violent. They're [the multinationals] creating the violence by acting in this outrageous manner, because it is outrageous."

As last week's *EIR* reported, the Naples daily *Il Mattino* reported that Italian security authorities are worried by a reference in a manifesto put out by a "New Red Brigades," that has already threatened the life of former Italian Prime Minister Silvio Berlusconi, who has cancelled all public appearances as a result. Known as the Nucleus of a Revolutionary Armed Initiative, the "New Red Brigades," which claimed credit for having bombed a building in Rome on April 8, called upon the "anti-globalizers" to "revolt and pick up weapons." This is an apparent reference to the G-8 summit that will take place in Genoa on July 20-21.

Goldsmith told a journalist that such a progression toward ever more violence is a natural part of the global Jacobin terror revolt.

These quotes demonstrate the real Benthamite profile of Goldsmith, whose brother, the late "green billionaire" Sir James Goldsmith, left him a fortune to fund this worldwide Jacobin terrorist movement, through the Goldsmith Foundation. As *EIR* reported last week, Teddy, who is editor of *The Ecologist* in London, which covers "deep ecology" issues, is also, since his 1950s association with *Paris Review*, a close friend and associate of Wall Street financial adviser and spook John Train, who played a major role in the "Get LaRouche Task Force." Both Sir James and Train were, ironically, close working associates of then-Vice President George Bush, who had been placed in charge of a series of public-private intelligence operations under Executive Order 12333.

Among the operations carried out by a so-called "Public Diplomacy" section of "Project Democracy," whose board included Sir James, were: support for the Iran-Contra operation, which also involved a massive drugs-for-weapons campaign that introduced crack cocaine into the United States; support for the Afghanistan "freedom fighters," who have subsequently become the number-one terrorist threat in the world; and, Train's 1982-84 propaganda blitz to discredit Presidential candidate Lyndon H. LaRouche, Jr., which led to LaRouche and six of his associates being railroaded to jail in 1989.

# AIDS Victims in South Africa Beat Back the Multinationals

by Ramtanu Maitra

Facing a rising surge of resistance from representatives of millions of AIDS victims, 39 pharmaceutical companies, including a large number of multinationals, dropped their case against the South African government to block imports of cheaper AIDS drugs. The victory, celebrated by government officials and AIDS victims together, has a potential to broaden South Africa's fight against AIDS by opening up importation of all kinds of cheaper life-saving medicines, and by handing out licenses to the companies ready to manufacture, inside South Africa, generic drugs to meet the nation's requirements.

In 1998, South Africa passed a law that would allow the country to ignore patents, and either import or manufacture generic drugs, under specific circumstances, to protect public health. The law did not apply only to the AIDS drugs. Subsequently, 39 pharmaceutical companies put their money and muscle together to challenge the law, and brought a suit against the South African government to overturn it.

With the rise of international pressure against these pharmaceutical companies (see *EIR*, March 23, 2001), both inside and outside South Africa, some of the multinationals, including Boehringer-Ingelheim, Merck & Co., and Abbott and Bristol-Myers Squibb, began to offer cheaper drugs, cutting down the cost of the three-drug cocktail recommended to arrest the spread of AIDS in human bodies, from the \$10-15,000 per patient per year price-range, to as low as \$2,000-2,500. Their objective behind the offer of cheaper drugs for Africa was to prevent the South African government from handing out licenses to manufacture cheaper generic drugs and from importing cheaper drugs from other sources.

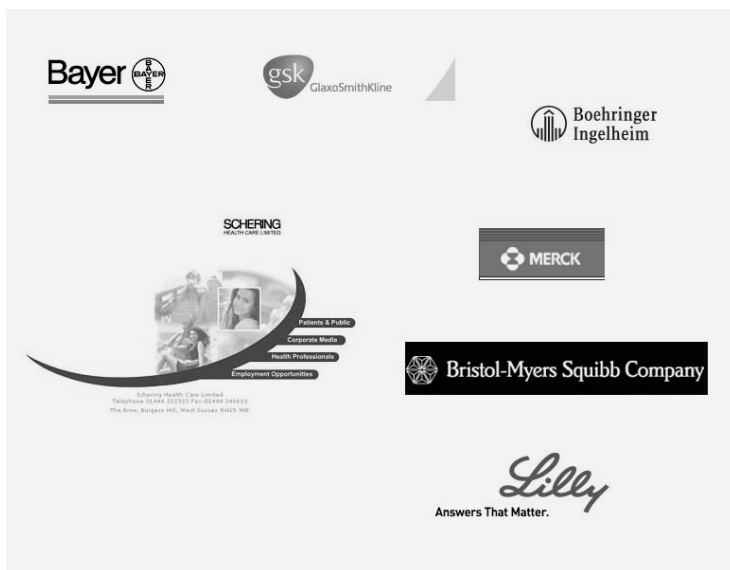
Even free-market guru Jeffrey Sachs showed up in South Africa, with his hair-blower and all, shedding crocodile tears over the AIDS victims and the high prices of three-drug cocktails, while stressing the importance of maintaining the sanctity of patent law to ensure the development of new drugs. Sachs urged the advanced nations to donate \$3.3 billion over the next five years to create a trust fund for testing, building clinics, and training health professionals. In other words, Sachs urged the taxpayers of advanced nations to channel more money into the ever-widening pockets of the multinationals and

their advisers, such as Sachs himself.

On the ground in South Africa, pressure for cheaper AIDS drugs was kept up by a number of non-governmental organizations (NGOs), of which the Médecins Sans Frontières (MSF), Oxfam, and the Treatment Action Campaign were the most visible. When the South African court moved back the trial date from March to April, these NGOs kept hammering on the pharmaceuticals for killing off Africans. When the Indian pharmaceutical company CIPLA, which produces generic AIDS drugs and has offered to sell it to the MSF at \$350 per person per year, officially sought a license from South Africa to supply the government with generic drugs at \$600, the die was cast. It then became a classic "us versus them" situation. The multinationals smelled the problem, and hastily withdrew the petition, jeopardizing a slice of their lucrative \$4 billion market.

## Where To Go from Here

The dropping of the suit by the South African pharmaceuticals and the multinationals has opened up a few options



*Some of the pharmaceutical giants who have now abandoned their suit against South Africa's government—a development which opens up generic anti-AIDS drug production in Third World nations.*

to South Africa. South African Health Minister Manto Tshabalala-Msimang, who took the battle to the multinationals, is scheduled to visit India soon to begin talks with CIPLA. Similar visits to Brazil and Thailand would open up more sources that can ensure a steady supply of cheaper drugs to treat AIDS patients. In India, the Hyderabad-based Hetero Ltd. is another drug company which manufactures generic AIDS drugs and is willing to sell them to South Africa at a low price.

Simultaneously, South Africa must exploit all possible openings that exist in the Trade-Related Intellectual Property (TRIPs) rights agreements, imposed on all trading nations through the World Trade Organization (WTO). TRIPs allows production of generic drugs. However, the nation concerned is allowed to manufacture generic drugs only in case of national emergencies. The Nelson Mandela Administration, which enacted the law to import cheap generic drugs, had, however, conceded to every demand of the free traders.

South Africa must now seize the moment and challenge the WTO clause, with the cooperation of such nations as Brazil, India, Thailand, and other African nations. China, which is expected to join the WTO this year, must also be brought in to join the fight. South Africa must lay down a clear formulation that will enable the nations to protect their citizens from the burden of importing expensive patented drugs.

One such formulation, floated in India, suggests that the generic drug manufacturers will be asked to pay an annual royalty to the patent-holders based upon the sale of the generic drug. Such royalty payments could be 4-5% of the annual generic drug sales in the country. The patent owners, of course, would be allowed to sell their high-price drugs at any price they like.

The second part of the plan will be to set up a global fund for treating AIDS victims. This cannot be done through the World Health Organization or such other United Nations outfits, because all of them are heavily courted by public relations officials representing the multinationals. The proposed global fund should be developed in the form of a common fund generated by countries severely affected by AIDS, or those expected to be so affected in near future.

The fund could also be used for adopting preventive measures. What these preventive measures would be, will depend upon the society in which the measures are implemented. For example, there is little doubt that the population, who are victims of generational malnutrition problems, are more vulnerable to the ravages of AIDS than those who are well fed. This means developing a program to increase the nutritional content of the diet of the people in those countries. It is a long-term preventive measure, but it is worth every penny that the country sinks into it.

The third part will be to put in place a distribution system which will give AIDS patients access to generic drugs. Brazil, among all the developing nations, has done a remarkable job in developing a distribution system whereby it has the ability to reach a vast number of AIDS victims in time to arrest the

deadly progression of the disease. India lags far behind, and so does Thailand. It seems that China does not have the infrastructure either, to respond to its needs quickly. South Africa, on the other hand, has a much better physical infrastructure than most other developing nations. There should not be any reason why every AIDS victim in South Africa cannot be reached and treated.

It is evident that no matter how satisfying it was to defeat the multinationals, that will not suffice. The cheapest generic drugs, even if they are made available in sufficient quantity and in time, will still remain unaffordable to more than 90% of AIDS victims. Most of the governments fighting this deadly disease, are those of very poor nations.

## India Is Ready To Exploit Outer Space

by Ramtanu Maitra

On April 18, India's first developmental flight of the Geosynchronous Satellite Launch Vehicle (GSLV-D1) took off smoothly, carrying an experimental communications satellite, G-SAT-1. The takeoff was perfect, bringing India into an elite club of nations which have the technology to exploit outer space.

Although India needs to carry out yet another successful launch before the reliability of the GSLV is fully established, the success of the April 18 launch has opened up new possibilities for India, and discussion to that effect is heard in Delhi. The Indian Space Research Organization (ISRO), the authority in charge of India's space program, has already indicated that it is interested in "seeding" future technologies for building re-usable launch vehicles which could take off and land like aircraft. Such vehicles can be manned or controlled by automatic pilot. Russia, which has helped India in developing the supercooled fuel (or cryogenic) engine used in the GSLV, reportedly has the technology for auto-controlled re-usable launch vehicles, and is being seriously courted by Delhi in various areas of space technology cooperation.

### Moon Mission

The ISRO is also lobbying for drawing up plans for a lunar probe, or an orbiter, to be followed by a Moon mission. Delhi has not cleared the plan yet.

According to ISRO scientist Dr. P.S. Goel, what is required at this point is "a green light from the government." "An unmanned lunar probe mission can be launched by 2008 if we get a go-ahead now," Dr. Goel said. ISRO chief Dr. Kasturirangan is also high on such lunar missions. "It is not a question whether we can afford it, it is whether we can afford





*India's Polar Satellite Launch Vehicle, the forerunner to its more advanced Geosynchronous SLV.*

to ignore it," he pointed out to newsmen recently.

India already possesses a proven launch vehicle, the Polar Satellite Launch Vehicle, which can be used to send an orbiter to study the Moon more closely. Alternatively, the GSLV can do the job, sending an 850-900 kilogram spacecraft as a flyby mission to the Moon, or a 600 kg orbiter to investigate the Moon from close quarters.

The Indian space scientists have been discussing the possibility of a Moon voyage project since 1997. But only in 1999 did they hold the first public discussion on it. The success of the GSLV launch will surely give the Moon voyage project momentum; the ISRO has lobbed the ball back to Delhi's court.

### **The GSLV: New Potentials**

The GSLV, launched from India's southeastern coastal town of Sriharikota, is a three-stage vehicle. The first stage, GS-1, comprises a solid propellant motor, S-125, and four liquid propellant strap-on boosters, L40. A single liquid propellant engine, L37.5, powers the second stage, GS-2. The third stage, GS-3, is a cryogenic stage with a C-12, re-chargeable engine. The third stage uses supercooled liquid hydrogen and liquid oxygen in two separate aluminum tanks connected by an interstice structure.

The launching of the 49.1 meter tall and 401 ton vehicle, carrying the 1,540 kg experimental satellite, has put India in the same league with the United States, Russia, the European Space Agency (ESA), Japan, and China, which have similar capabilities. The launching of the GSLV is also important because it not only provides India the capability to launch its own communications satellites, but also to enter the lucrative \$3 billion commercial market for satellite launch. India had used international assistance earlier to launch the remote sens-

ing satellites in the geosynchronous orbit. However, these satellites were used to meet civilian requirements. With the success of the GSLV, India now can launch satellites dedicated for surveillance and other purposes for the armed forces, into low Earth orbit.

The first attempt to launch the GSLV-D1, on March 28, was aborted when the strap-ons caught fire. That the ISRO could identify and rectify the problem, and launch the vehicle within the span of three weeks, shows the determination and capability of the outfit.

### **Strategic Issues**

In addition to the commercial issue, the launching of the GSLV shows that India can now develop long-range missiles, capable of carrying nuclear weapons. India's missile program, which developed the short-range Agni-I missile and is testing out the medium-range Agni-II missile, is now ready for the long-range intercontinental missile, the Agni-III.

Western defense experts say the GSLV, like much of India's indigenous space program, could also serve as a platform to test a wide range of military technologies. The United States, which, along with the European nations, slapped sanction after sanction on India, opposed India's receiving cryogenic engines from Russia. Washington said that the deal violated the Missile Technology Control Regime, an informal, non-treaty association of countries meant to limit the spread of missiles and missile technology. Under pressure from Washington in particular, Russia supplied India with seven cryogenic engines, but did not transfer the critical technology required to handle the liquid oxygen and liquid hydrogen fuels.

Indian scientists, despite sanctions against technology-transfer from the West, have developed the entire nuclear fuel cycle, space vehicles, and super-computing capabilities indigenously. In fact, according to Dr. Raja Ramanna, now the doyen of the Indian nuclear scientists, the Indian nuclear weapons program was put in place because of the Western opposition.

What has not been brought into focus following the GSLV launch, is that India has also developed an indigenous supercomputer, PARAM, which has a range of 100 gigaflops (100 billion floating-point operations). Only two other nations, the United States and Japan, have supercomputers with a greater range. According to the Indian scientists working on PARAM, the supercomputer can be scaled up to perform a trillion floating-point operations, which would make it perhaps one of the most powerful supercomputers in the world.

When one puts India's nuclear, space, and computer capabilities together in the proper light, it is evident that India has the potential to become more than a nuclear weapons nation. While India is keen to bridge the military gap with other major nations, Delhi has indicated flexibility to Washington's probes on the development of ballistic missile defense. It is evident that India is preparing for it.

## Behind Gore Vidal's Tirade Against FDR

by Mark Burdman

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### The Golden Age

by Gore Vidal

New York: Doubleday, 2000

467 pages, hardbound, \$27.50

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At a time when the miserable policies of the Bush Administration are, understandably, triggering often-impassioned criticisms of Washington, even by usually staunch pro-American figures in different parts of the globe, one must be on guard against certain fashionable “anti-American” commentators, whose own agenda may be even worse than that of the George Bush team—if that can be imagined.

Such a dubious individual is Gore Vidal.

Now resident in Italy, the American-born Vidal has become something of a guru, usually to left-liberal critics, primarily in the United States and Great Britain, but also in continental Europe and elsewhere. He is frequently interviewed in the European press, or writes commentaries, on the American situation. A clever and educated fellow, and talented scribbler of sorts, he is capable of coming up with those witty phrases, trenchant comments, and pithy insights, that seem, at first glance, to be right on target.

But let the reader beware. The fact is, Vidal has become the leading novelist/historian for what can, justifiably, be characterized as the “treason school” of writings about the United States. He comprehends, that he who controls a nation’s history, can effectively control the minds of its population, or, as British writer George Orwell, author of *1984*, once said: “He who controls the past, controls the present.” Vidal is aware that Americans, increasingly as the years go on,

have become dismally ignorant about their own history. His nickname for America is “Amnesia.” His aim, is to fill what he perceives to be a vacuum.

In *The Golden Age*, the most recent in an historical-novel (or novelized history) series that Vidal has dubbed “Narratives of Empire,” the chief target of his venom is President Franklin D. Roosevelt. Secondary targets include Gen. Douglas MacArthur, President John F. Kennedy, and the latter’s brother Robert. In earlier novels, including *Burr* (1973), *1876* (1976), *Lincoln* (1984), and *Empire* (1987), Vidal took vicious aim at George Washington, Thomas Jefferson, Alexander Hamilton, John Quincy Adams, Abraham Lincoln, James G. Blaine, and other leading American statesmen and patriots.

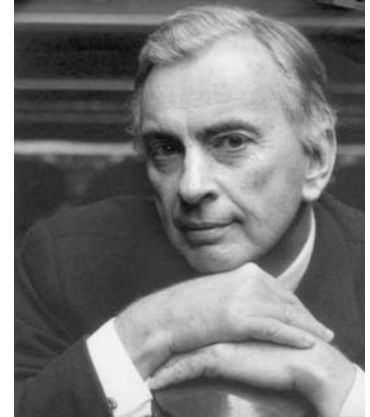
The thread running through many of these novels, including in *The Golden Age* and most energetically in *Burr*, is hero-worship for the renegade scoundrel Aaron Burr. In *Burr*, Vidal depicts Burr, as if flaunting the fact, working with Ambassador Anthony Merry and other chief figures of the British Empire, to bring about the disintegration of the United States. Vidal also shows the close relations between Burr and the latter’s chief British patron, Jeremy Bentham, the head of the “secret committee” of the British Foreign Office.<sup>1</sup>

### Deconstructing Western Civilization

Clearly, Vidal is a leading propagandist, in the tradition of Bentham, for those British imperial interests committed to destroying defenders of the principles of the Declaration of Independence and the U.S. Constitution, in the United States

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1. For insights into Burr, see *Treason in America: From Aaron Burr to Averell Harriman*, by Anton Chaitkin (New York: New Benjamin Franklin House, 1985). On Bentham, see article by Lyndon LaRouche in this issue’s *Feature*.



Gore Vidal (right) promotes the treason tradition of Aaron Burr (left) against the patriotic tradition embodied in the last century by President Franklin Roosevelt.

and elsewhere. His family's links to the British Gore family (of former British Ambassador to the U.S. David Ormsby-Gore, a.k.a. Lord Harlech, as well as other well-placed British influentials of that surname) are of relevance to this. And, as the Tennessee Gores, of Al Gore father and son notoriety, also come out of that nest, it is not surprising that Vidal's worldview converges, in crucial respects, on that of the past 35 years' pro-Confederacy "Southern Strategy."

Vidal carries forward the ideas of such negatively influential Brits of the last century as H.G. Wells and Bertrand Russell. His fundamental commitment, like theirs, is to deconstruct the very fabric of Western, Judeo-Christian civilization.

In novels other than in his "Narratives of Empire" series, and in various articles and commentaries, Vidal has vituperated against the 15th-Century Golden Renaissance, specifically because it led to a vast increase in global population. He has campaigned for the massive reduction of world population, particularly its non-white components. He has promoted homosexuality (he is a practicing homosexual) as an efficient means of reducing population. Consistent with all this, Vidal has denounced the monotheistic faiths of Christianity, Judaism, and Islam.

### The Method of Misanthropy

Vidal uses the medium of the historical novel to combine factual historical events and processes, with fictional elements, and thereby ascribe actions and motivations to real historical characters, the which may have, at best, a foggy relation to reality, and, at worst, be pure inventions of the imagination. This method requires no proof by citation. It allows the author the duplicity of saying something nasty, and then denying that he meant it, once the damage has been done;

it allows for a great density of innuendos, gossip, and the like.

Vidal himself has virtually admitted as much, in various locations. For example, in his "Afterword" to *The Golden Age*, he takes pride in having gossiped, in his novel *Lincoln*, that Abraham Lincoln's reported "melancholy and odd health" may have been brought about by "mercury poisoning," from the mercury that he ostensibly used, at one point in his life, against syphilis. He mocked the "Lincoln brigade in academe" for being "outraged by my reference to this 'maggoty story.'"

Vidal's intended effect, is the opposite of what is accomplished by the great tragedies or history plays of a William Shakespeare or Friedrich Schiller. They, too, ground their plot development on historical processes, "things that really happened," and add in fictional elements, in the sense of dialogues and other elements that did not happen in reality. However, when they depict graphically those flaws of the leading character that make an ugly denouement inevitable, it is to make manifest fundamental truths about human behavior. Their intent, is for members of the audience to emerge from the experience better people, capable of taking greater responsibility for their nation, and for mankind as a whole.

Vidal, by contrast, cynically drags the reader into a complex of gossip, sleaze, and perversity, that, insofar as he succeeds, leaves the reader feeling as misanthropic as is the author himself.

### What's at Stake

We see this method at work throughout *The Golden Age*. The central theme, accompanied by numerous sub-plots (some incomprehensible, unless the reader has read previous novels of the "Narratives of Empire" series), is the portrayal of FDR as a treacherous intriguer, who plotted to bring the

United States into World War II by, in effect, rigging the Japanese attack on the American fleet anchored at Pearl Harbor. As one character in the book sardonically comments, the “infamy” is not the “date of infamy” as coined by FDR in his famous declaration of war following Dec. 7, 1941, but that of FDR himself.

Vidal insinuates, through the mouth of one anti-FDR character in the book, that FDR, or one of his henchmen, arranged to have the American fleet docked at Pearl Harbor, rather than at San Diego, to make it easier for the Japanese to attack, and to kill some 3,000 American seamen. Vidal puts these words in the mouth of one leading FDR critic: “It’s the way Hitler works. Accuse your victim of aggression. Then, attack him.”

Vidal’s FDR comes off as not much better than a Grade-B movie degenerate mafia godfather. His FDR is a cretin who engages in serial adultery, randomly disposes of friends and associates, and so on.

The accusation that Roosevelt “dragged America into World War II,” has been the common fare for decades of various species of isolationists, populists, and others in the United States. It is gaining new circulation now, at a time when the forces behind George W. Bush, centered around the Mont Pelerin Society, have a vested interest in destroying everything that remains today of what FDR stood for, and in eliminating the positive remembrance of that great President, that tens of millions of Americans still have.

For the “FDR question” is the decisive matter, in determining which way the American nation goes, in the next weeks and months. As Lyndon LaRouche has repeatedly stressed, the revival of the policies and commitments of FDR at this time, provides the unique way for the United States to avoid becoming a fascist nation, as Germany became in 1933, when it rejected the leadership of those whose policies were similar to those of FDR.

LaRouche has made three fundamental points about FDR. One, is that his central commitment was the promotion of the “general welfare” for all the population, in line with what is promised Americans in the Preamble to the U.S. Constitution. Second, FDR saw himself as the spokesman for the “American intellectual tradition” of Benjamin Franklin, John Quincy Adams, and Lincoln, and ran his 1932 campaign for the Presidency to rally the population behind that tradition. Third, his intent after World War II was to dismantle the colonial empires of Great Britain, the Netherlands, France, and Portugal, and to replace them with a global system based on a community of principle among sovereign nation-states, and on “American System” methods of rapid economic and technological development.

### **The American ‘Augustus Caesar’**

Looked at from this standpoint, Vidal’s scurrilous purpose in writing *The Golden Age* becomes apparent.

There is no need to dignify Vidal with a refutation of the

allegations that fly out, like scatter-shot, from the pages of *The Golden Age*. He is not involved in an honest portrayal of FDR, but a character assassination.

What matters for Vidal, in the “FDR rigged Pearl Harbor” saga, is to establish certain so-called “motives,” the which are meant to confirm his perverted sense of the United States.

Vidal attributes four “motives” to his fictional FDR. One, the least of these but no less nasty, he puts into FDR’s mouth, to explain why he is concerned to act against Japan at a time when the Japanese were rampaging over the Chinese. Says FDR: “We Roosevelts are old China hands. . . . Our Chinese connection goes back to the clipper ships. My grandfather, Warren Delano, made a fortune running opium to the poor Chinese.” I.e., FDR had a Romantic love for the British monarchy’s opium trade.

Motives two and three, of greater weight in the overall account, are closely linked: FDR was desperate to become the first President in American history to have a third term, and was frantic, by the late-1930s, that his New Deal policies to get America out of the Great Depression were not succeeding. The “answer” to both these quandaries, was to get the United States into a war.

But, both of these alleged motivations are still, in Vidal’s world, only stepping-stones to FDR’s Big Idea, namely, to take over the world, with himself as potentate of a new American world empire, which would replace an ostensibly war-wasted and bankrupt British Empire. This book, then, becomes the lawful conclusion of Vidal’s “Narratives of Empire” series, which is founded on the construct that what matters in American history is the ineluctable process toward an “American Empire.”

Hence, FDR, in the novel, is given the nickname “Augustus,” after Augustus Caesar, the founder of the Roman Empire. In Vidal’s account, FDR is determined to accomplish what President Teddy Roosevelt, his cousin, couldn’t do, and what President Woodrow Wilson failed to do. Vidal’s characters repeatedly refer to Wilson as FDR’s “mentor,” an absurd concoction, in view of FDR’s rejection of the Wilson’s pro-Confederacy, pro-Ku Klux Klan worldview.

FDR is portrayed as power-mad, and he and/or his circle are, at times, likened to Hitler and the Nazis.

### **Whitewashing the British**

Throughout this tirade, Vidal engages in what can charitably be called a whitewash of the British Empire.

He simply ignores three basic realities. One, is the deep philosophical, cultural, and political hostility that FDR felt for the British imperial system. Insofar as he does refer to FDR’s anti-British sentiments, he reduces these to the pettiest of emotions, such as that FDR’s Dutch family origins made him resent the British supplanting of the Dutch in the early American colonies, and that FDR personally had ill feelings toward Winston Churchill from the days when Churchill, as British War Secretary during World War I,

treated FDR, who was then U.S. Assistant Secretary of the Navy, disdainfully.

Second, Vidal peddles the usual cant about how the “Americans replaced the British as world empire” after World War II, and that the British Empire doesn’t exist any more. In fact, as *EIR* has documented, the British Empire, after World War II, regrouped under the aegis of the British Commonwealth. That Commonwealth, to the present day, exerts enormous control over world financial flows, particularly via the City of London; over vital raw materials; and over crucial cultural-philosophical trends, as per Churchill’s insistence, at Harvard University in the early 1940s, that the future would be determined by the battle of “empires of the mind.”

There have been powerful U.S. interests, centered in Wall Street, that have promoted an Anglo-American world empire in a “special relationship” with Great Britain. Since the fall of the Soviet Union during 1989-91, the world empire has taken the form of a Commonwealth-centered “Gang of Five”: Great Britain, Canada, Australia, New Zealand, and a United States largely under the thumb of Wall Street and “Confederacy” interests.

Vidal carries the falsification to the point of simply ignoring, in his account of the Harry Truman years following Roosevelt’s premature death in 1945, the famous March 1946 “Iron Curtain” speech by Winston Churchill, in Fulton, Missouri, which launched the “Cold War.” This is hardly what a “leftist” guru might do. But then again, Vidal has a nostalgia, most strange for such a species, for Truman, and for 1945-50. The book title, in fact, is taken from a manuscript written by one of the characters, an account of the years 1945-50.

## **Cannibals and Bacteria**

Vidal’s hatred of American republican leaders and ideas is ultimately driven by an all-compelling misanthropy. This comes out clearly in the last pages of *The Golden Age*, which depict Peter Sanford, the main character of the book, in the year 2000, now 77 years old, likening the modern world to the “Malthusian nightmare” of ancient Mayan civilization, which solved its problems by reverting to cannibalism. This Sanford is clearly meant to be Vidal’s own alter ego, since, by a weird novelistic trick, Vidal himself becomes a character in the novel, in friendly chit-chat with Sanford. The character, Vidal, even engages in dialogue with the reincarnation of Burr, who declares the era of the nation-state to be over, and his own intention to rule the world, through “energy.”

The concluding passage reads: “As for the human case, the generations of men come and go and are in eternity no more than bacteria upon a luminous slide, and the fall of a republic or the rise of an empire—so significant to those involved—is not detectable upon the slide even were there an interested eye to behold that steadily proliferating species which would end either in time or, with luck, become something else, since change is the nature of life, and its hope.”

The “something else” that “that steadily proliferating species” is suppose to become, is an ominous prospect, if one reviews some relevant background, on Vidal’s ideas.

## **‘There Are 4 Billion People Too Many’**

From the late 1980s through the mid-1990s, Vidal became an impassioned advocate of the most extreme Malthusian policies, repeatedly insisting that the world population must be reduced from its level of 6 billion-plus, to no more than 2 billion.

He told a conference in São Paulo, Brazil, in March 1987, that AIDS is a positive factor, because it will “reduce the world population to 2 billion in a generation.” On Dec. 19, 1988, he appeared on West German television, to advise that the United States and the Soviet Union should cooperate on such “soluble” problems as the “population explosion,” because “there are 4 billion people too many.”

In one essay, published in a collection of his essays on the United States, he ranted that the human population has been “breeding like a virus under optimum conditions” over a 100-year period. He advised that “breeders” should be “discouraged,” while “same-sexers” should be treated as “benefactors,” because they help control world population.

Vidal also penned attacks on the Golden Renaissance, for having caused an increase in world population. That Renaissance, he exclaimed, created a “sudden big bang” in population, in which process the white race spread like “a plague” around the globe.

Lyndon LaRouche has heralded the Golden Renaissance as the key positive moment in the history of humanity, especially as it catalyzed a vast rise in world population. He has published a chart, showing the great rise in world population since the Renaissance. Essentially, that same graphic was reprinted by Vidal’s relative Al Gore, in his ecologist rant, *Earth in the Balance*, to warn of the dangers of population growth brought about by Western civilization. That polemic against the Renaissance is frequently heard in advisory circles to Great Britain’s Royal Consort Prince Philip, co-founder, former international president, and now president-emeritus of the World Wildlife Fund (now the World Wide Fund for Nature).

In line with his hatred of the Renaissance, Vidal has repeatedly attacked the monotheistic religions, declaring, in one early-1990s piece, that monotheism is “the greatest disaster ever to befall the human race. . . . I see no good in Judaism, Christianity, and Islam.”

Several of these ideas were in a Vidal commentary in the Oct. 10, 1993 London *Sunday Telegraph*, the paper owned by Hollinger Corp. chief executive Conrad Black, the British Empire enthusiast who is close to the Bush family interests in the United States. In it, Vidal called for the creation of a “Northern white race confederacy,” to defend what he portrayed as a dwindling white race, against rapidly increasing Asian and other non-white races.

# The Mystery of Hernando de Soto: How To Generate a New Financial Bubble

by Luis Vásquez Medina

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## **The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else**

by Hernando de Soto

New York: Basic Books, 2000

276 pages, hardbound, \$27.50

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Amid great media fanfare, Hernando de Soto recently released his new book,<sup>1</sup> in which the author, unrestrained by any modesty, claims to have finally unveiled the “mystery” of capitalism.

The book’s release was preceded by bountiful praise from numerous mouthpieces of globalism and international finance. Former U.S. President Sir George Bush, who while President had called De Soto “the Third World’s most brilliant economist,” commented: “Hernando de Soto’s prescription offers a clear and promising alternative to the economic stagnation of the Third World.” Milton Friedman, the guru of neo-liberalism (i.e., free trade), said that De Soto “offers politicians a project which could contribute to the welfare of the country, while simultaneously increasing his political standing, a marvelous combination.”

The book’s release has also served as a political trampoline for the author. While De Soto remains frustrated in his aspiration to become a Presidential candidate in Peru, his book has won him a nomination as adviser to President Vicente Fox of Mexico, where his proposals for the “informal economy” already seem close to implementation. President Fox has announced the imminent “boom of mom-and-pop shops,” given that his government will supposedly encourage the banks and mutual funds to reorient their portfolios toward the marginal sectors of small and micro-businesses. This re-orientation will presumably take place, on De Soto’s advice, as soon as an adequate registering of property is organized, which will enable these sad little “businesses” to become

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1. Although *The Mystery of Capital* was first published in English, all of the citations used in this review are translated into English from the Spanish edition, *El Misterio del Capital: Por qué le Capitalismo Triunfa en el Resto del Mundo*, Mirko Laver and Jessica McLaughlin, trans. (Lima: Editora El Comercio, 2000).

subject to credit checks.

In Peru, social democrat Alan García, who will be challenging Alejandro Toledo for the Presidency in the upcoming election runoff, and who pushes the neo-Thatcherite program of British Prime Minister Tony Blair’s “Third Way,” recently named De Soto as one of his most important advisers. And in the United States, Steve Forbes, the former Presidential candidate, owner/director of one of the country’s largest financial publications, and champion of drug legalization, insisted that De Soto should be tapped by President George W. Bush to become head of the U.S. Agency for International Development (AID), and be given supervision of U.S. relations with the International Monetary Fund (IMF) and World Bank.

Why such praise? Because the essence of De Soto’s new book is an outrageous scheme to mortgage the misery of one-third to one-half of the population — not just of Peru, but of the entire world — to thereby generate a new financial bubble of more than \$9 trillion, in a desperate attempt to save the most bloated financial system in history. De Soto says: “We calculate that the value of real estate, but not of legally held property, in the possession of the Third World poor and those who are emerging from Communism, adds up to no less than \$9.3 trillion.”

## **Quite a Swindle!**

A Peruvian lawyer educated in Switzerland in economics, De Soto’s career was launched by the famous Peruvian pervert Mario Vargas Llosa, who wrote the prologue to De Soto’s first book, *El Otro Sendero (The Other Path)*, in which De Soto proposes the “legalization” of underground or informal economies, as part of the process of deregulating economies in general. De Soto specifically argues that the informal sector, which includes street vendors, micro-businesses of all sorts, and other forms of the underground economy, constitutes the most “dynamic” sector of the national economy, and that the government should incorporate it into the formal sector, through registering and deeding property, amid a general deregulation of the economy. His thesis is that, with these “legal-institutional” changes, economic growth would take off in the countries that implemented them.

However, rather than leading to improvement, his ultra-liberal prescriptions, as applied in Peru, have aggravated



*Hernando De Soto draws from the pernicious physiocratic doctrine of François Quesnay, the evil of Bernard de Mandeville, and the Jacobinism of Jean-Jacques Rousseau, to float an outlandish proposal for generating some \$9.3 trillion in financial paper on the basis of the “assets” of the most marginalized poor.*

chronic problems. For example, in *El Otro Sendero*, De Soto proposed the deregulation of the automobile sector, including advocating the free importation of used vehicles. Since the early 1990s, when De Soto was an adviser to the Alberto Fujimori government, Peru has imported approximately 250,000 small used buses, which had been discarded by other nations. For that quarter of a million junk vehicles, the country has paid at least \$2.5 billion, funds would have been more than sufficient to construct an urban metro system. But, thanks to De Soto, all that capital today has vanished into smoke, and the streets of Lima and the other major cities are filled with broken-down vehicles.

For *The Mystery of Capital*, De Soto has relied on financing from the U.S. AID, the Center for International Private Enterprise, and the Brookings Institution. De Soto investigated, with the assistance of Her Majesty’s Land Registry in London, the history of property registration in various countries. In Egypt, he had the help of the Egyptian Center of

Economic Studies, run by Ahmed Galal. In Haiti, he worked with the economic team of the scary former President and current dictator Jean-Bertrand Aristide. In Mexico, he worked directly with the team of current President Fox, with Eduardo Sojo, Juan Hernández, and Fausto Alzati, among others. In the Philippines, he received help from deposed President Joseph Estrada. And in the United States, he is backed by neo-conservative sectors linked to the National Endowment for Democracy and the Heritage Foundation.

### ‘Misery’ Bonds To Save the Financial Bubble

In his new book, De Soto draws from the pernicious physiocratic doctrine of François Quesnay, the evil of Bernard de Mandeville, and the Jacobinism of Jean-Jacques Rousseau, to float an outlandish proposal for generating some \$9.3 trillion in financial paper (stocks and bonds), on the basis of the “assets” of the most marginalized poor in the “informal” sector of the Third World and formerly Communist countries.

As De Soto admits, his proposal for generating “misery bonds” is a chip off the block of the “brilliant” Michael Milken, who invented “junk bonds” in the early 1980s — and ended up in jail for some of his “brilliant,” but not necessarily legal, activities.

De Soto proposes something similar to what Milken did: Issue a large amount of financial paper — stocks, bonds, and credit — on the basis of the “housing” (actually, hovels), the ramshackle workshops, and other materials and equipment of the under- and unemployed. These people, thanks to 25 years of neo-liberalism, have become the “informal businessmen” who inhabit the “poverty belts” that surround nearly every Ibero-American city.

The only problem, according to De Soto, is that these “assets” are not legally recognized. Their owners do not have official deeds to their property, which therefore cannot be used as the basis for mortgages and credit.

Thus, argues De Soto, if capitalism is to triumph in the Third World and former socialist and Communist countries, the state must legalize these properties, and issue deeds to the homes and workshops of millions of “informals,” thereby creating an efficient property registry system. Then, these deeds “could be used as guarantee for credits,” and would be “the basis for creating values (for example, mortgage-backed bonds) that could be rediscounted and sold on secondary markets.”

“Thus, through this process, capital is generated,” proclaims De Soto enthusiastically, in the belief that he has “broken the barrier to producing capital” in backward countries.

Like the magician with his magic wand, De Soto has “created capital.” But the reader should not be confused by this illusion of what capital is. For De Soto, capital — what moves an economy — is simply money, although he maintains that that money must be based on title deeds: “Money doesn’t earn money; one needs a title deed before one can make money. Even when money is loaned, the only way to benefit from it is either by re-lending it or by investing it against some type

of property deed which establishes rights over principal and interest.”

Thus, the author concludes that “the system of formal property . . . is the place where capital is born.”

### **‘Social Contract’ and the Drug Trade**

De Soto’s proposal requires an “adequate social contract,” like that proposed by Rousseau and Thomas Hobbes, and which in essence is a social agreement about landed property. A social contract, he says, is the form whereby “people appropriate things and owners relate to one another.” Further, “to create a national social contract over property, presupposes understanding the psychological and social processes—beliefs, wishes, intentions, customs, and rules—that exist in local social contracts, and then using the instruments which facilitate professional law to weave them into a single formal national social contract. This is what the Western countries achieved not so long ago.”

One can see the legacy of Immanuel Kant very clearly here. For De Soto, it was Kant, the philosopher who promulgated Romanticism and the French Enlightenment, “who discovered that the true condition of the owner should be preceded by a social contract; all property law emerges from social recognition of the legitimacy of a claim.”

Based on this, De Soto formulates a proclamation for what we might dub a “legalist” revolution, headed by lawyers, to carry out in the backward countries what supposedly made the development of capitalism possible in the Western industrial nations: a social contract “which efficiently regulates property for all, or at least for almost everyone.”

This is a return to the anti-capitalist thesis, summarized in the liberal physiocratic dogmas of Quesnay, that land is the origin of the wealth of nations. However, De Soto is not only in debt to Quesnay for his notion of capital; he has also borrowed from Karl Marx’s erroneous thesis on capitalist development. According to De Soto, Marx understood capital with greater clarity than did Adam Smith, because the author of *Capital* had the brilliance to discover the process of “primitive accumulation”; that is, the process of accumulation of money prior to and supposedly necessary for the appearance of capitalism. For Marx, this “primitive accumulation” is the amassing of money based on profits stemming from slavery, land rent, imperial trade, bank usury, and vulgar looting, and from freebooting.

Today, “primitive accumulation” could be represented by the profits of the drug trade. Further, the “informal sectors” of Third World economies are, to a large extent, mere tentacles of the huge drug-trafficking apparatus in these countries. It therefore comes as no surprise that many of the theorists of the informal economy and of deregulation, are also great promoters of drug legalization, including, for example, Milton Friedman, mega-speculator George Soros, and De Soto himself.

For Marx as for De Soto, “primitive accumulation” is a

stage both prior to and necessary for capitalism. De Soto, in a chapter on the economic history of the United States, applies this concept of primitive accumulation (which in essence is a defense of slavery, robbery, and usury) to his dishonest view of the development of U.S. capitalism. As *EIR* has shown, the American System of political economy was, historically, diametrically opposed to British “capitalism.”

### **A Fraudulent Treatment of U.S. Economic History**

In a chapter entitled “U.S. History Lessons Not Learned,” De Soto, in his zeal to give credibility to the physiocratic thesis that property is the origin of capital, presents a fraudulent view of U.S. economic history. He states that the invasion of foreign territories by American pioneers—“invaders,” as De Soto calls them—was the basis for U.S. economic development. Thus, he turns the U.S. economic process into a history of imperial looting and spoils, which he dubs U.S. “primitive accumulation.”

To illustrate his point, De Soto writes that in the 1670s, Lord Baltimore used “invaders” to colonize vast territories: The Penn family of Pennsylvania encouraged people to settle as much territory as they could; and adventurers such as “Ethan Allen and his invader cohorts practically seized the state of Vermont, before the 1776 revolution.” In this process, says De Soto, “the most prominent feature of the nature of the invader was his violent and implacable hatred of the law.”

For De Soto, primitive accumulation in the United States was not limited to the West, a relatively uninhabited region, but extended to neighboring countries, referring to the invasion of Mexico as one of the most important events in the formation of Yankee capitalism.

“From 1784 to 1850, the United States acquired nearly 900 million acres through conquest and purchase: Louisiana (1803) with 500 million acres; Florida (1819) with 43 million acres; Gadsen (1853) with 19 million acres; and the war with Mexico incorporated another 334 million acres.”

He affirms that this process of looting, pillaging, and imperial invasion had the support of the state. In fact, he argues that this was official U.S. policy throughout the 18th and 19th Centuries. Thus, he writes, “from 1780 to 1848, the [U.S.] Congress gave 2 million acres of land to the soldiers who fought in the Revolution, 5 million to the veterans of the War of 1812, and 13 million to those who fought in the war against Mexico.”

De Soto’s main thesis in this chapter could be summarized by his assertion that the key to U.S. success lies in the fact that, at an opportune moment, the state “slowly” legalized this process of pillage and looting, based on an “adequate social contract.” Institutional reform legalized ownership of illegally obtained soil, says De Soto.

The U.S. “proper social contract,” according to De Soto, was the realization of the “Jeffersonian ideal” of putting property into the hands of private citizens, and made possible a



system of property registration, which was the basis for the generation of “capital” based on mortgages, bonds, and other financial paper. In his words:

“Recognition and integration of the rights of extra-legal property, were key elements in making the United States the most important market economy and principal producer of capital, in the world. . . . In the 19th Century in the United States, a social agreement on ownership of farms, mines, and urban settlements was created, which produced a vast system of property ownership, upon which property was integrated into a formal legal system which allowed them to use it to create capital.

“U.S. property went from being the means of preserving an old economic order, to being a powerful tool for creating a new order. The result was broader markets and sufficient capital to promote explosive economic growth. This was the ‘amazing’ change that still today drives the economic growth of the United States.”

What De Soto so pompously presents, is a version of U.S. economic history elaborated at Anglophile dinner parties, which has been exhaustively retailed by Ibero-American leftists and rightists alike, to attack the American Revolution. It hides the great truth, that the United States was the first successful anti-oligarchic republic in history, the first political form of the state which did *not* base its economy on some form of parasitic profit—whether slavery, land rent, or speculation.<sup>2</sup> The states and Constitution of the U.S. Republic, far from forging some form of Rousseauvian “social contract,” were heirs to the Leibnizian tradition which sought the common good, or “General Welfare,” promoting the self-perfection of its citizens in an environment of true freedom.

The American System of economics, in contrast to the British System of free trade and free enterprise, was not centered on the extensive exploitation (looting) of resources as such, but sought the development of science and technology as the key to economic development.

De Soto’s version of history, in which he praises President Andrew Jackson as the darling of the “illegals,” and explicitly attacks Henry Carey, Lincoln’s economic adviser and a major exponent of the American System of economics, was fabricated to serve the interests of the oligarchy that has continuously sought to destroy the achievements of the American Revolution. By making policy recommendations based on such a hoax, De Soto reveals precisely who his bosses are.

## The Great Fraud

The physiocratic and Marxist concept of capital that De

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2. As American System economist Henry C. Carey proved, the pre-Civil War U.S. economy as a whole did not profit from the slavery that existed in the Southern states. The net economic benefit of that slavery was enjoyed, not by the internal economy of the U.S.A., but by the British monarchy, looting the U.S. physical economy. See Henry Carey, “The Slave Trade Foreign and Domestic,” in W. Allen Salisbury, *The Civil War and the American System: America’s Battle with Britain, 1860-1876* (Washington, D.C.: Executive

Soto puts forth, is directly opposed to the Christian concept, that it is the developable cognitive capacity of the human mind that is responsible for the generation of real wealth. For industrial capitalism, historically identified with the American System of economics, this capacity to discover new, valid universal physical principles, and with it, the creation of new technologies and ever more perfect forms of production, is the true source of economic progress, and the origin of the increase in man’s dominion over nature.

De Soto opposes all of this. He explicitly rejects educational and cultural advancements as the precondition for capitalist development: “A large portion of the agenda of necessary research to explain why capitalism fails outside the West, founders in a sea of unexamined and mostly unproven ideas, labelled as a matter of ‘culture,’ and whose principal effect is to allow too many inhabitants of the privileged enclaves of this world to enjoy a sense of superiority.”

Thus, one needn’t be all that brilliant to understand now why the appearance of De Soto’s new book has been greeted with such fulsome praise from the representatives of the international financial community. His suggestions on how to generate capital in backward nations do not touch on the policies of the IMF. His sophisms hide the reality, that the lack of real capital in these economies results from the forms of commercial and financial looting to which they have been subject under the current international financial architecture. He further lies when he states: “The crisis of capitalism outside the advanced sector countries is not due to the failure of international globalization, but rather to the fact that the developing sector countries and those that are emerging from Communism have not been able to ‘globalize’ capital in their territories.”

In sum, one could say that De Soto’s proposal is but one more fevered attempt to keep the speculative financial bubble aloft a little longer, by injecting more “hot air.” His bosses hope that it would accomplish the same thing today that junk bonds did in the 1980s, and financial derivatives and the dot-com stocks did in the 1990s. The “misery bonds” that De Soto promotes are only the latest desperate attempt to create a new speculative niche, literally based on the hunger and poverty of the Third World.

Without even blushing, the snake-oil salesman De Soto has begun to tour the plazas and parks of Lima, telling the poor that they are not really poor, but rich, and that their miseries “are worth double all the money circulating in the United States.”

Now we know why Margaret Thatcher has said: “*The Mystery of Capital* has the potential to create an enormously beneficial new revolution. It should be mandatory reading for everyone responsible for ‘the wealth of nations.’”

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Intelligence Review, 1992). See also Lyndon H. LaRouche, Jr., “The Tragedy of U.S. Education: Shrunken Heads in America Today,” *EIR*, April 20, 2001.

## Saving D.C. Hospital Is Watershed Issue for Congress

by Nancy Spannaus

The stakes were raised again April 27 in the nationally supported and internationally watched battle to save Washington, D.C.'s public hospital, D.C. General Hospital, from closing. The embattled Washington City Council, backed by mobilized representatives of the city's churches, unions, and neighborhood councils, unanimously overrode Mayor Anthony Williams's veto of their unanimous April 18 vote to fund the hospital. They then called on the U.S. Congress to support them in keeping the hospital open, against the fascist austerity of the D.C. Financial Control Board (the extra-governmental body that Newt Gingrich's Congress imposed on the District's elected government in 1995).

Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr. said that if the Congress of the United States capitulates to *Washington Post* owner KKK-Katie Graham on D.C. General Hospital, then they will have reduced themselves to the same status as the German Reichstag after the famous fire used by Hitler to impose his dictatorship.

At this point, the decision on the fate of the capital's only public hospital is directly in Congress's hands. In the appropriations bills of 2001, the Congress, as well as the D.C. Financial Control Board, mandated that the District's public health system be "restructured," meaning privatization and the shutdown of D.C. General Hospital. Thanks to the mobilization by a broad coalition to save the hospital, under the leadership of associates of LaRouche, the D.C. City Council has decided to resist this diktat. By rare 13-0 and 12-0 votes, they funded the hospital and then reinstated the funding over the veto of the Mayor; he is acting as a toady of Katharine Graham's secretive financial elite grouping known as the Federal City Council, which has slated the hospital's land for real estate "redevelopment." Thus the Council affirmed again its judgment that the hospital should continue to be a fully funded, full-service public facility.

### Ask Congress To Intervene

At a press conference on April 27, City Council Chairman Linda Cropp pointed to the hope that the U.S. Congress, which established the Financial Control Board, and could block the board's actions, would intervene to support the Council's action. If the Congress is not forced by citizen pressure to do so, the Financial Control Board plans to simply *impose* the murderous privatization/closing plan on the city. A simple case of bankers' dictatorship.

The stakes in this battle have been made excruciatingly clear to the Congress, residents of the District, and millions of citizens internationally, by the LaRouche movement. Behind the decision to close D.C. General is the Nazi economic policy of the financial elite, led by Graham's Invisible Empire (see *EIR*, April 27, 2001), including the leading bankers and real estate developers and devoted absolutely to *depopulation*, getting rid of those it considers "useless eaters." Such a Nazi policy directly violates the General Welfare commitment of the U.S. Constitution, which every Congressman, and Administration official, has sworn to uphold. But if the mobilized citizenry of these United States can *reverse* this policy, that would be a blow to reverse the global onslaught by international fascist financiers, now entering a genocidal frenzy due to the dramatic collapse of the utterly bankrupt world financial system. The Nietzschean proclivities of the Bush Administration would hit a roadblock of the only sort they understand: political power.

### Challenging KKK-Katie's Kontrol Board

Tension has been building in this by-no-means local battle. A more than eight-hour "public roundtable" sponsored by the D.C. City Council on April 27, reflected the fact that the battle is coming to a head.

Most extraordinary was the combativeness of the City



*The Washington City Council on April 18, announcing the first of its unanimous votes to keep D.C. General Hospital open and full-funded as a public hospital. The D.C. Financial Control Board, acting for financiers led by Post owner KKK-Katie Graham, is acting to overturn the council and publicly destroy Washington, D.C. "Home Rule."*

Council members holding the hearing. Chair Sandra Allen opened up by excoriating Mayor Williams for being “missing in action,” and she was followed up by other Council members, who exposed in great detail the fact that the current contract which the Control Board and Mayor want to sign, in order to sell off D.C. General, will *dramatically reduce* health-care services for D.C. residents, particularly the working poor. The Council members were equally outraged about the threats which they have received from the Mayor and the Financial Control Board, that they must agree to the hospital deal, or “jeopardize home rule.” “What kind of home rule is it, to do what you’re told to do, with a hammer over your head?” asked Republican City Councilman Carol Schwartz. “This is insane and inane.”

The financial establishment is obviously feeling the heat. For the first time in its existence, the Control Board—which calls itself “the Authority”—sent one of its members to appear before the City Council. If the Control Board thought Eugene Kinlow, an elderly African-American who has personal friendships with several Councilmembers, would be able to cajole them into line, it was totally wrong. After more than an hour and a half of blistering questioning, Kinlow left the Council chambers in tears. And city officials who stayed behind felt the further heat of the Council and the new popular movement behind it. Typical was the attitude of Councilman David Catania (R-At Large), who bluntly refused to ask the Mayor’s health representative, Dr. Ivan Walks, any questions, because “there is no truth here, just lies.”

Reflective of the support for the Council’s opposition to diktat, was the showing of both prominent and ordinary citi-

zens who came to testify for saving the hospital. Former U.S. Surgeon General Joycelyn Elders, who served in the Clinton Administration, and Michigan State Delegate Lamar Lemmons (D) both gave the Council their support. Lemmons reported that he was working hard to deliver the Michigan Congressional delegation to support keeping the hospital open. Michigan is a crucial battleground state, as leading Democratic institutions, such as the Detroit City Council and the Michigan Black Caucus, have passed resolutions supporting the hospital, while the chairman of the D.C. Appropriations Committee, Republican Rep. Joe Knollenberg, is also from Michigan.

More than a dozen other citizens, some of them from the hospital and some from the LaRouche movement and coalition, also presented testimony ripping the Control Board plan to shreds.

### **Fascists Plan To Go Ahead**

The D.C. General Hospital battle pits citizens directly against the genocidal policy of the top financial powers in Washington, the nation, and the world. It is the Wall Street financial establishment to which KKK-Katie Graham, her Federal City Council, and former Federal Reserve Governor Alice Rivlin’s Control Board itself answer; and they are maniacally determined to exert power. Thus, Rivlin made it known that the Control Board intended to override the City Council by May 1, to implement the deal to privatize and close D.C. General.

In an April 23 conversation with a local journalist, Glenn Dixon, the spokesman for the D.C. Financial Control Board,

expressed confidence that Congress would do absolutely nothing to impede the Board's plan to shut down the hospital. The Control Board, he said, "is authorized to act in lieu of the Council if it so decides. We are fully empowered to execute and begin the process of implementation of the contract." He confirmed that May 1 is the "planned start date for the contract," but added that it wasn't "an unequivocal, *drop dead* date."

As to the role of Congress, Dixon arrogantly noted that the Board would notify the relevant Congressional committees "of our intent to go forward," as the enabling legislation requires, but added that the Control Board was confident that Congress would not get in their way. "The likelihood that they [Congress] will do anything more, than simply accept our notification and indicate their acknowledgment of our intention, is unlikely — it's not impossible, but it's *highly* unlikely."

A spokesman for the FDR-PAC, the political action committee associated with Lyndon LaRouche that has been directing a nationwide mobilization to force the Congress to stop the hospital's closing, as part of Congress's sworn obligation to defend the General Welfare, responded to Dixon's remarks. "We don't think the Control Board's arrogant confidence is necessarily grounded in reality. Based on the intensity of the national opposition to the shutdown of D.C. General, we have every reason to expect that Congress will stand up to Wall Street's Katharine Graham—actually, we call her, appropriately, KKK-Katie Graham—and the attempt to dictatorially implement a Nazi 'Negro Removal' policy in the nation's capital. If they don't, it will immediately result in the deaths of many people, who will be denied the speedy quality care that D.C. General now provides to anyone who comes through its doors, whether they are rich or poor, black or white, insured or uninsured. But, even more important, if Congress were to fail to act, that failure would constitute a conscious choice to allow the imposition of a fascist policy by KKK-Katie Graham's and Wall Street's Financial Control Board, *against the fundamental intent of U.S. law, and of the legally elected government of the region.* If the Congress were to submit to that, they might as well pour into the streets of Washington, D.C. and publicly commit self-castration."

As of this writing, it is clear that the Control Board is feeling the heat. The Board has called a public meeting for 2 p.m. on April 30, in the same building and at the same time that the Council hearing was held. The stated purpose of the meeting is to consider: 1) actions regarding the provision of health-care services for indigent residents of the District; 2) the future role of the Public Benefit Corp. (which operates D.C. General) in the provision of those services; and 3) the recent supplemental appropriations bill enacted by the D.C. Council, which provided \$21 million to keep the hospital operating. A Board spokesman said it is unlikely that the Control Board would take any action to execute the contract before the meeting.

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## Dr. Abdul Alim Muhammad

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### 'A Movement Based On Love'

*The following remarks were made at a rally of the Coalition to Save D.C. General Hospital, at Union Temple Baptist Church, in Washington, D.C., on April 18. Dr. Abdul Alim Muhammad, one of the founders and leaders of the Coalition to Save D.C. General Hospital, introduced the historic meeting.*

Let me just say that this is the tenth town meeting, the 11th town meeting, and you all are to be commended for sticking in on something that is going much longer than I, certainly, thought it would go. But this is becoming a movement. And we are noticing all over the city that the spirit of this movement is spreading among the people, far and wide. Some of you have been here from the very beginning. How many of you were at the very first town meeting, 11 weeks ago? Okay, and you're here now. And haven't you learned a lot? Because the format that we use for these town meetings, was the format that was developed in the Civil Rights movement and in the anti-war movement, because the government was putting out a lot of propaganda. They were suppressing information. They knew that this is a government of, by, and for the people, but they know that the people are no better than the information that they have at their disposal. You can't stand up and be a citizen if you're in the dark, if you don't know what's going on. If it's a shell game, and you can't see where the action is. And so, back in the '60s, they developed this technique called a "teach-in," where people would come, and just ordinary citizens, people like you and me, who had done a little research here, a little research there, we would put our two cents in, and by the time you added up all of those two cents's, then you really started having something of value. And before it was all over, ordinary men, ordinary women, ordinary citizens of this country became the experts on civil rights, became the experts on voting rights, became the experts on human rights, became the experts on the War in Vietnam, because they had done their homework. . . .

Now, this is a movement that is based on love. There's nothing hateful about anything that is being said or done in this place. This is a house of God. Mr. Omer's [Mayor Williams' chief-of-staff, recently dismissed-ed.] opinion notwithstanding. What kind of love-movement is this? Well, first of all, we love God. We love God. And this movement is composed of people of all faiths. Some are Muslims, some are Christians, some are Jewish, some are of other faiths. All the denominations. Everybody is here, because we understand one thing: the only way that we can show our love for God is to demonstrate it to one another. The only way that we can serve a God who is above need, is to serve our fellow man. And so that's

what we understand D.C. General to be.

D.C. General is not a hospital that is set up on the idea of making money. D.C. General is a hospital that is set up for service to the poor, and since we've got a whole lot of poor people: Jesus said, "the poor, you have with you always." So that means you *always* have to have a public hospital that doesn't mind taking care of the poor. We're interested in health care, not wealth care. The wealthy people, they can build their condos someplace else. We're not against them having condos, hotels, marinas, and anything else they want to build. They can build all of those things, *but not on the site of D.C. General Hospital!* That's what we're saying: Go somewhere else with that! D.C. General Hospital is sacred ground. It is consecrated for the care of the poor and the indigent and those who have no other options. We cannot allow a policy or plan to go forward that is so mean-spirited, that it would deny the poor the only option that they have.

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## Kevin Chavous

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### 'We Will Fund the Hospital'

*Remarks by Kevin Chavous, Member of Washington, D.C. City Council:*

Thank you. Y'all make me feel right welcome here. First of all, to our panelists, our host Reverend Wilson, I heard Dr. Speed, Dr. Elders, all the panelists, Reverend Bevel, whom I've known for many years, Dr. Alim Muhammad. Years ago, you need to know, that Dr. Muhammad and I co-sponsored a health fair in Ward 7, where we talked about some of these various issues. Let's give all of them a round of applause for their leadership.

I will be brief, because we do have an excellent panel assembled here. I do want to follow up on one thing that Dr. Muhammad alluded to, and that is, where things stand. I want to give you some feedback on that. Folks, I am so proud of my colleagues on the City Council. When all 13 of us, *all 13*, and I'm gonna tell you: We don't have no 13-0 votes. We just don't have that. But when 13 of the members of the City Council all stand together, in the face of *intense opposition*, from Capitol Hill, from the Mayor's office, from the Control Board, from members of the business community, in the wake of all that opposition, for my colleagues to say, "No. We're not going to shut this hospital down; and not only are we going to vote to keep the hospital open, we're going to put our money where our mouths are, Mr. Mayor. So we will fund the hospital for the next year." And that's what we did last week.

Now, where it stands is: The Mayor can veto that action, and it takes nine votes to override the veto. Well, we've got

those votes. And then, once we override—and we will, 13-0, we will override—once that happens, it is in the hands of the Control Board. And you know what a member of the media said to me—and then I'll sit down. I just want to share this with you. He said, "Now, Councilman, don't you feel that you're threatening home rule, by doing something Congress doesn't want you to do?"

I said, "Well, what are they going to do? Take away our right to vote?" "What are they going to do, take away our budget autonomy? Our legislative autonomy? What are they going to do, take away our voting members of Congress? I mean, what are they going to do? Put in a Control Board to oversee what we do?" You know what, under these circumstances, I'll take my chances with Congress. I'll take my chances. Sometimes when your back's up against the wall, you ain't got nowhere else to go but forward! And to me, this vote is a vote on moving forward. And we're going to continue that fight. God bless each and every one of you, and we are going to *win*, 'cause we are *right*.

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## Dr. Joycelyn Elders

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### 'Don't Be Afraid of Failure'

*Remarks by Dr. Joycelyn Elders, former Surgeon General of the United States:*

Thank you very much. . . . I was asked by the media tonight, "Why did you come? It's all over, it's all done." Well, first of all, I came because I was asked. I came because I was asked about something that I believe in. All of you know that if I don't believe in something, I don't run around pretending I do. My mom told me, "Always speak the truth." She said, "The day you see the truth, and cease to speak the truth, is the day you begin to die." And all of you know, I'm going to live forever.

I bet the only political group in this country that's ever had a 13-0 vote, or a 100-0 vote, related to health care was the D.C. Council. You know how we are, you know we believe in having health care for the haves, and sick care for the have-nots. If we start talking about prisons, jails, we always go out and vote to tax to build a jail. But when we start talking about food, start talking about hospitals, start talking about health care for the poor, where are we? "We don't have the money." But we've always got plenty of money to build another jail, to send another young person out to the prison. Since 1980, we've spent far more money on jails than we've spent on schools. And we wonder why we have so many young, black men in prison, where very often we're sending them to schools and they graduate from high schools with diplomas that they can't read. Shoes that light up when they walk, and a brain

that goes dead when they talk.

You know, when I was your Surgeon General, I complained and said, "We need to *educate* young people on how to be healthy." And they kept saying, "Well, Dr. Elders what you want to do is teach 'em how to have sex." Well, first of all, let me tell you: *Nobody has to teach anybody how to have sex!* God taught 'em how to have sex! But as long as they can walk around and talk about reproductive health, talk about women not being able to plan their own lives, not knowing, and talking about abortion issues, they didn't have to talk about health, because they could use this as an excuse for health care; and we've allowed it to happen.

Let your fight be about opening the eyes of this community, to make sure we have the kind of health-care system that we need for this entire community. We need a full-service hospital to be the centerpiece, and then we need more than that: We need to educate our people. We need to make sure we have clinics all around to provide service to our people. We need to provide primary, preventive health care.

So, I'm saying, I think we need this hospital. You can't have just a primary-care plan. You've got to have secondary care, and you've got to have tertiary care. And I think Dr. Young [Dr. Michal Ann Young, D.C. General Director of Neonatology—ed.] illustrated to us beautifully the very importance of providing tertiary care, and having our tertiary-care hospital in the center of an area that has a lot of poor,

under-served community, with limited access to care. There are multiple health problems, and I don't have to tell you what they are. Many people have told you what they are, even before I got up here. You know that they're the least likely to have health insurance. They're least likely to have transportation; so if they don't have transportation, how can they get to that clinic, all the way across town?

So, we've got to understand what the real problems are. And begin to deal with the *real* issues. And I feel that this community has gotten together, and worked this hard, trying to keep this hospital from closing, let me tell you, if you fail, if you disappear, that's the worst thing you can do. Because you need to keep on pushing. And don't worry; if you measure your success by your failures, you always feel worthless. So make sure that you keep on working. You know, I was told two or three times, now: "Why, Dr. Elders, why do you come here now? It's all over. It's all done. There is nothing you can do." Well, you see, I'm a doctor. And I'm saying that nobody is ever dead, until there is not another heartbeat that I can make come about. So you just keep fighting, and keep on working.

And I'll tell you something, that I often end with. It's something my bishop told me, a long time ago. You know, I've been called an atheist, everything but a child of God, but the people that was calling me that, Reverend, probably hadn't seen half as many insides of churches as I had. But, be that as it may, he said, "Dr. Elders," he said, "you know, you're in public health, and when you're fighting and trying to preserve the rights, and help the people, it's like dancing with a bear." He said, "Always remember, that when you're dancing with a bear, you can't get tired and sit down. You've got to wait until the bear gets tired. And *then*, you sit down."

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## School Killings Lawsuit Takes Aim at Hollywood

by Michele Steinberg

During a period of about ten days in March 2001, 2 students were killed and more than 20 wounded in three school shooting incidents in Santee, California; Williamsburg, Pennsylvania; and El Cajon, California. Once again, as during the Columbine High School massacre in Littleton, Colorado on April 20, 1999, the American people witnessed students fleeing, bloodied and terrified from their schools. Once again, the background of an accused school killer, Charles "Andy" Williams, 15 years old, of Santee, fit the mold of a troubled boy mixed up with drugs and deeply involved with the violent fantasies of video games. Across the nation, people asked once again, "When will it end?"

Immediately following the incident involving Andy Williams, Lyndon H. LaRouche, Jr., candidate for the 2004 Dem-

ocratic Party Presidential nomination, released a forceful reminder that no amount of gun control and other such measures will abate the schoolyard killings, unless the cultural roots in nihilism and cultural pessimism are attacked. LaRouche's reiterated his earlier warning at a May 20, 2000 meeting of the National Commission on the New Violence: "Paying attention to the immediate threat caused by the New Violence, and paying attention to that which caused so many of us to become suckers for tolerating the New Violence, should be treated as a warning sign to us: Wake up! We're doing wrong. We'd better change it, while we still can."

A class action lawsuit filed April 19 in Denver U.S. District Court, by Nebraska attorney John DeCamp, against 24 defendants, manufacturers and distributors of violent video games, movies, and Internet material, may trigger changes that can arrest the seemingly unstoppable phenomenon of schoolyard shooters.

On behalf of the wife and daughters of Columbine High teacher William David Sanders, slain while attempting to save students during the attack, DeCamp is suing the makers of the violent "how to kill" material consumed by the accused killers, Eric Harris and Dylan Klebold. DeCamp, a former long-time Nebraska State Senator who won his first election while still serving in Vietnam, doesn't mince words. His suit says that "enough circumstantial evidence is available today when properly gathered and obtained, to clearly establish that absent the combination of extremely violent video games and these boys' incredibly deep involvement, use of and addiction to these games . . . these murders and this massacres *would not have occurred*" (emphasis in the original).

In an interview with *EIR*, DeCamp also emphasized that much of the evidence seized by the Jefferson County Sheriff's Department and other law enforcement agencies, about the video games and Internet material used by Harris and Klebold, has never been released.

### **Ratings for Adults, Ads Target Kids**

Unlike other lawsuits that stemmed from the Littleton incident, DeCamp says that this suit goes at the "root causes" of the school killing phenomenon. The defendants, which range from pornographic Internet sites with names like "adultkey," to the biggest names in the \$11-billion-a-year video industry — Atari, ID Software, GT Interactive Software, and Nintendo of America — are not producing entertainment, he says. Rather, they are knowingly unleashing as "toys," the "technology designed to specifically teach our military to kill with efficiency and effectiveness."

DeCamp has confirmed that the release of this material to children is *not accidental*. He cites the example of the Federal Trade Commission report in September 2000. It found that retailers, wholesalers, and the marketing departments of exceedingly violent materials, often featuring extremely graphic combinations of violent sex acts, *deliberately* target children in their advertising campaigns, despite the fact that

these same manufacturers put a rating on these products for *adults*.

DeCamp has confided with experts that the "shoot to kill" videos are public adaptations of high-technology "kill simulators" used by the U.S. military. Interviewed on Court TV, a national cable network, on April 25, DeCamp described how the use of the repetitive video shooting makes killing instinctual, and removes the "human aversion" to taking another human life. He told Court TV's Catherine Crier that, during World War II, only 15-20% of American GIs fired their weapons in combat at an enemy soldier. The military revamped its training techniques, using more sophisticated forms of behavior modification, ultimately developing computer simulators with realistic targets. By Vietnam, the shoot-in-combat rates had soared to 95%.

DeCamp also stated in a press release issued after the filing, "For those who doubt these machines do the damage we claim, or are able to transform an impressionable child into a mechanical, robot killer, just look at the evidence already pouring in from Federal studies to show a *common thread* in almost all school shootings to the success in the *military* of the essentially identical training equipment for our soldiers."

### **Video Makers 'Take the First'**

There is already a backlash of pressure against the DeCamp suit from the defenders and prostitutes of the techno-violence industry that flourishes on the sales of video games, movies, "death metal rock" paraphernalia, and Internet products. Critics claim that DeCamp is assaulting the First Amendment. The media have been quick to say that the Denver suit will be thrown out of court, because the lawsuit brought in Paducah, Kentucky, by the families of victims of school shooter Michael Carneal, which targetted some of the same video-game manufacturers, had been dismissed, and is now on appeal.

DeCamp replies that it is Hollywood and the video-game industry who are "abusing" the First Amendment by trying to pass off their sales of provably dangerous material to a defenseless and impressionable segment of the population, "our children." He said that massive pressure is building against the suit, and the attorney who had served as his local counsel in Colorado has withdrawn, after a spate of negative publicity. But he says that with further release of the evidence in the Columbine case, the suit can be a breakthrough analogous to the early suits against the tobacco industry.

DeCamp is no stranger to investigating the relationship between violence and the abuse of children. In the 1990s, he took up an investigation in the Nebraska legislature of "citizens above suspicion" involved in a widespread pedophile ring of child prostitution, involving top Republican Party figures in Nebraska who had links all the way up to the Bush White House. The story of that investigation, and DeCamp's successful lawsuit on behalf of one child-victim, is told in his book, *The Franklin Coverup*.

# Hire Satanists To 'Protect' Your School?

by Don Phau

Starting in 1997, one outbreak after another of fatal school shootings, have shocked and frightened the American population, from Pearl, Mississippi to Paducah, Kentucky and Colorado's Columbine High School. While many have, correctly, identified violent video games and related Hollywood fantasies as crucial, causal elements, the Hollywood and game "industries," joined by corrupt law and mental health professionals, have leaped to the defense of these deadly addictions.

Now, even while the debate rages, and the violence industries face multiple high-stakes lawsuits, many schools around the country have been suckered into contracting with a strange firm, promising them "risk assessment" studies, but in fact representing those very violent-video and game-addiction interests, and the death-worshipping cultural attitude, that have created the problem. The fox now paid to guard the henhouse, is Hollywood-based Gavin De Becker, Inc., whose founder, Gavin De Becker, has personally defended Satanic "heavy-metal" rock groups in court, praised Hitler's favorite "philosopher," Friedrich Nietzsche, and sophistically claimed that the mere "amount" of media consumed, is more important than its content and form—too much Classical music being therefore more dangerous than small amounts of blood-spurting dismemberment games.

De Becker's product is a computer model he calls MAST, or Mosaic for the Assessment of Student Threats. NBC News reported that \$100 million has been allocated for school security in California, and "every police department in the state will have some access to MAST." MAST, according to De Becker's website, is being used by the CIA as well as Yale University, Boston University, Pennsylvania State, and the University of California at Los Angeles (UCLA).

And what premises are built into his system? In one court case, two children, who were obsessed with the music and lyrics of the heavy-metal rock band "Judas Priest," committed suicide. When their parents sued the record store that sold their kids the records, De Becker testified in court for the defense, using the arguments found in his best-selling book, *Gift of Fear*. There, De Becker cynically claimed that killers often say afterwards that "Satan or Allah" made them do it. "But," he writes, "families can't sue Satan or Allah, so record companies and musical groups are sometimes all they've got." He adds: "The content of media products matters, but the amount may matter more, whether it is watching television

too much, listening to rock music, or for that matter listening to too much Classical music."

In his antipathy to human reason, De Becker's guiding light is the philosopher of arbitrary, irrational will, Friedrich Nietzsche. In his book *Gift of Fear*, De Becker writes, "One evening a few years ago, legendary FBI behavioral scientist Robert Reesler, the man who coined the term 'serial killer,' visited my home for dinner. (Reesler wrote the book *Whoever Fights Monsters* the title of which comes from a Nietzsche quote I have often considered. . .)."

Dinner with Robert Reesler is significant in itself. Reesler was also involved with networks at the University of Virginia's Institute of Law, Psychiatry and Social Policy, whose director was an early advocate of drug legalization, and whose incompetent—and criminal—psychological theories, helped to create and justify the FBI's murderous assault on the Waco, Texas Branch Davidians. (The Institute's programs and personnel overlap the FBI's own Quantico, Virginia "psychology" center.) Both were also prominent in the years-long frameup and prosecution of Lyndon LaRouche and his associates, from the 1986 raid on LaRouche publishers' offices, to the failed attempt, in 1989, to find LaRouche associate Michael Billington insane, by use of cooperative, dissembling, psychiatrists from the Institute. Also connected to the Institute's networks, was John Markham, one of the chief prosecutors of LaRouche in 1988, and in private practice, attorney for the overtly Satanic Process Church. In short, De Becker's "risk assessment" is just a cover to conduct profiling studies, for coercive social control purposes.

De Becker, Inc. is also a key link between those who supposedly are seeking to stop school violence, and the Hollywood-promoted "New Violence" seen in the Columbine High School massacre. In *Gift of Fear*, De Becker has praise for Joseph Campbell, a longstanding affiliate of the Esalen Institute kook factory, whose writings inspired director George Lucas to create the *Star Wars* movie series. Campbell was a friend of the Nazi-approved Swiss psychiatrist and psychological theorist Carl Jung, whose mystical and racist theories underlie Campbell's own lifework: attempting to replace reason with forms of mental activity pivoting on "mythic vision." *Star Wars* simply clothes Campbell's much-researched myths, not least of these the story of Lucifer, with futuristic garb. Jung was the director of the major psychological association under the Nazis and, not surprisingly, another disciple of Nietzsche.

In turn, the *Star Wars* stories have been used for the themes for dozens of video games. Lyndon LaRouche, in an article entitled "Star Wars and Littleton" (*EIR*, July 2, 1999), said of the movie, "How does one corrupt innocent children into becoming psychotic-like killers? The quick answer to that question is, *dehumanize* the image of man. . . ." In a memorandum of April 19, 1999, LaRouche said that "New Violence" meant the "introduction of new methods, those of Nintendo games and related means, to transform young



children and adolescents, as well as law enforcement personnel, into Samurai-style programmed killers.” The Columbine shooters, Dylan Klebold and Eric Harris, were avid players of point-and-shoot video games. They, and other school killers, also immersed themselves in watching Hollywood movies such as *Natural Born Killers* and *Basketball Diaries*, which graphically depict school shooting massacres and other acts of grisly violence.

### Racial Profiling

One clear consequence of the use of such “profiling” systems as De Becker’s MAST, as the method for “preempting” Columbine-style school shootings, is that public schools are turned into quasi-prisons, with elaborate security systems, and growing rates of expulsion of students, under a program called “zero tolerance.”

“Zero tolerance” has led to thousands of arrests, expulsions, and suspensions of students for “offenses” as “severe” as bringing mouthwash into a school or possession of a nail clipper. Millions of dollars are being spent for metal detectors and security cameras, despite the fact that, according to a report by the Association of Chiefs of Police, such equipment can itself actually lead to violence.

In 1998, over 3 million students were expelled or suspended. Under “zero-tolerance” measures, African-Ameri-

can students have been singled out, with rates of expulsions as much as 22 times higher than whites. In an interview, Kim Brooks, Executive Director of the Children’s Law Center, noted that what schools are being led into, is not prevention of violence, but rather the profiling, including racial profiling, of student populations, “as a funnel for the criminal justice system.” The FBI promulgates a personality profile which includes many typical adolescent behaviors such as “low tolerance for frustration”; the Secret Service, Brooks points out, has studied school violence and rejects the idea that there is any “profile of the typical kid who kills.”

The Children’s Law Center report states, “A larger threat comes, not from school shootings, but from attempts to turn the schools into funnels for the juvenile justice system.” For example after Columbine, in Florida, the Miami-Dade Police Department’s Anti-Terrorism Squad called around to high schools asking for names of any students who might be dangerous, specifically asking for kids who were “Gothic.”

The report notes that the number of school suspensions and expulsions increased to nearly 6.8% of all students, an increase from 3.7% in 1974, and “most were for non-violent, non-criminal acts.” Afro-American students were suspended 2.3 times more frequently than whites. In Denver, San Francisco, and Austin, the rate was three to four times that of whites. In Phoenix, the rate was 22 times higher!

## Video-Game Violence Turns Children Into Killers

A 14-year-old boy who had never shot a gun before, shot eight classmates with eight bullets. Police were stunned. How could he do it?

The boy was *trained*, by his addiction to video-game violence. From “Pokémon” to “Doom,” America’s children are being turned into monsters, who kill “for the fun of it.”

Schiller Institute founder Helga Zepp-LaRouche, in this 1 hour and 40 minute video, **The Mark of the Beast**, exposes the evil which is hitting everybody’s hometown—and to which most parents remain oblivious. She traces the decline of American culture since World War II, and links the insane strategic and economic policies of the financier oligarchy and its war-planners, to the mass brainwashing of youth by video and TV violence.

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### *World Bank Liar!*

A former vice-president and treasurer of the World Bank admitted that institution's intellectual and economic bankruptcy at a major Washington seminar April 24; national leaders should draw the immediate implications for the ongoing global economic crisis.

The World Bank official, Eugene Rothberg, claimed that the current collapse could not have been forecast by any existing method—certainly its onrush was not foreseen, but rather consistently denied, by the World Bank in its annual forecasts to the present date. Rothberg then lied openly, and stupidly, when asked about Lyndon LaRouche's July 1994 long-range forecast of precisely the global crisis which began with 1997's "Asian" financial collapse. "Lyndon LaRouche," claimed Rothberg, "has predicted a collapse every quarter for the last 35 years."

LaRouche does not make quarterly forecasts, but—as Rothberg and the World Bank know quite well—has a public record of long-term, published economic forecasts over 40 years. Over that time, he has forecast with great accuracy, the stages of breakup and bankruptcy of the so-called "Bretton Woods monetary system" leading to the present global crackup of financial markets and destruction of national economies.

Rothberg was admitting—but not merely admitting—that the World Bank's annual "growth forecasts" are frauds, since the institution and its ilk "cannot foresee" (and will not acknowledge) the global depression conditions which it makes worse by its own policies. In lying about LaRouche's known forecasting record, this World Bank mouthpiece was also attempting to discredit LaRouche's policy-proposal for a "New Bretton Woods" agreement among key nations *which would scrap the bankrupt IMF and World Bank.*

LaRouche's New Bretton Woods policy is under discussion by governments and responsible opposition forces from Italy to Russia to the nations of ASEAN-Plus-3. In fact, it was reflected strongly in the very report of the United Nations Commission on Trade and Development (UNCTAD) which was being presented at the

seminar at which Rothberg made his lying attack on LaRouche.

The UNCTAD *Trade and Development Report, 2001* acknowledges that the world economy is "staring into a dangerous precipice," and that "the root of this problem lies, in large part, in the failure to establish a stable system of exchange rates after the breakdown of the Bretton Woods arrangements." This is the "floating exchange-rate system" since 1971 which LaRouche has insisted nations must scrap, in favor of national currency and exchange controls. And while the report does not clearly estimate the depth of the abyss, its major sections call for an urgent change in the monetary arrangements of the world.

It recommends debt moratoria combined with "lending into arrears" for nations now going through currency collapses and financial meltdowns, such as Turkey, Argentina, and Indonesia—opposed to the IMF-World Bank policy of combining ever-larger debt bailouts with ruinous "conditionalities." And the report proposes reforms to place the large volumes of unpayable indebtedness in the system under orderly bankruptcy; related to, though "not consisting of full-fledged international bankruptcy procedures." UNCTAD Secretary, Rubens Ricupero of Brazil, states in the opening summary of the report that such bankruptcy procedures for the global debt bubble are strongly opposed in financial circles. But they have been one of the hallmarks of both New Bretton Woods international arrangements, and national debt policies insisted on by LaRouche in his widely-known proposals to "launch a sudden economic recovery."

This points toward the alternative Bill Clinton and other leaders began to discuss in 1998, in the aftermath of the "LCTM" near-meltdown of the financial system, but which Clinton then dropped. It is in defense of the IMF and World Bank's refusal to change a genocidal policy for this alternative, that the World Bank's Rothberg attacked LaRouche's credibility—and destroyed his own.

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  - MANHATTAN—MNN T/W Ch. 34; RCN Ch.109 Alt. Sundays—9 am
  - NASSAU—Ch. 71 Fridays—4 pm
  - NIAGARA FALLS Adelphia Ch. 24 Tuesdays—4 pm
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  - QUEENS—QPTV Wed, 5/14: 1 pm (Ch.56) Thu, 5/17: 1 pm (Ch.56)
  - QUEENSBURY—Ch.71 Thursdays—7 pm
  - RIVERHEAD—Ch.27 Thursdays—12 Midnight
  - ROCHESTER—Ch.15 Fri-11 pm; Sun-11 am
- ROCKLAND—Ch. 27 Wednesdays—4 pm
- SCHENECTADY—Ch.16 Tuesdays—10 pm
- STATEN ISL.—Ch.57 Thu.-11 pm; Sat.-8 am
- SUFFOLK—Ch. 25 2nd, 4th Mon.—10 pm
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- TOMPKINS COUNTY Time Warner Sun.—9 pm (Ch.78) Thu.—7:30 pm (Ch.78) Sat.—7:30 pm (Ch.13)
- TRI-LAKES Adelphia Ch. 2 Sun: 7 am, 1 pm, 8 pm
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- WEBSTER—Ch. 12 Wednesdays—8:30 pm
- WESTFIELD—Ch.21 Mondays—12 Noon Wed., Sat.—10 am Sundays—11 am
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- W. SENECA—Ch.68 Thu.—10:30 pm
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- YORKTOWN—Ch.71 Thursdays—3 pm
- NORTH CAROLINA**
  - MECKLENBURG Time Warner Ch. 18 Saturdays—12:30 pm
- OHIO**
  - FRANKLIN COUNTY Ch. 21: Sun.—6 pm
  - OBERLIN—Ch.9 Tuesdays—7 pm
  - REYNOLDSBURG Ch. 6: Sun.—6 pm
- OREGON**
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  - PORTLAND AT&T Ch. 22 Tuesdays—6 pm Thursdays—3 pm
  - SALEM—ATT Ch.28 Tuesdays—12 Noon Thu.-8 pm; Sat.-10 am
  - SILVERTON SCANTV Ch. 10 Alt. Tuesdays 12 Noon, 7 pm
  - WASHINGTON—ATT Ch.9: Tualatin Valley Ch.23: Regional Area
- Ch.33: Unincorp. Towns Mon-5 pm; Wed-10 am; Sundays—10 am
- RHODE ISLAND**
  - E. PROVIDENCE—Ch.18 Tuesdays—6:30 pm
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- HOUSTON Houston Media Source Sat, 5/5: 10 am Mon, 5/7: 6 pm Tue, 5/8: 6 pm Wed, 5/9: 5:30 pm Sat, 5/12: 10 am
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  - GLENWOOD, Etc. SCAT-TV Ch. 26,29,37,38,98 Sundays—about 9 pm
- VIRGINIA**
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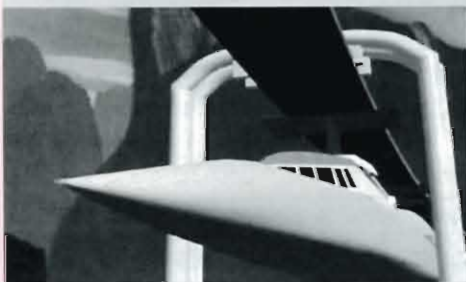
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