equipment had limits, of course, and he was fully aware of them. It was clear that Germany was going to have to acquire resources from other nations. The fact that Hitler determined to take these resources by force, to conscript the workforces of Eastern Europe into German factories, to seize the factories and raw materials, and to set up work camps that would work prisoners to death and cannibalize their bodies for "useful" parts, may not have been Schacht's idea, but it was the lawful result of his economic system.

Hitler himself explained the relationship in an Oct. 15, 1941 remark to his Berchtesgarten cronies: "Even to Schacht, I had to begin by explaining this elementary truth: that the essential cause of the stability of our currency was to be sought for in our concentration camps."

Schachtianism Was Never Defeated

It is not surprising that Schacht was not convicted of the *criminal conspiracy* of which he was accused at Nuremberg; his economic policy was shared by a very powerful pool of international bankers, starting with Montagu Norman, governor of the Bank of England, and including even powerful American financiers such as the Morgans, the Mellons, and the Harrimans. As Will Wertz pointed out in a recent article on the Nazi cartels (*EIR,* Jan. 21, 2005), these bankers not only played a crucial role in bringing Hitler to power, but were committed to a global fascist system. To have been complete, the Nuremberg Tribunal would have had to deal not only with Schacht, but the international bankers' cabal of which he was part.

Worse yet, the economic theories of Schacht have been preserved wholesale within the economics profession, and business schools, of Western society, although allegedly divorced from their "jackboot" enforcement methods. This point was dramatized during the early 1970s, when so-called liberal, anti-war economists such as Queens College's Abba Lerner came out defending the brutal Schachtian austerity programs being imposed by the International Monetary Fund around the world. In a famous debate in late 1971, Lyndon LaRouche provoked Lerner to the point that the professor endorsed Schacht's policies *during the Hitler period as well as now.* Lerner claimed that if the Germans had followed Schacht's policies, Hitler "would not have been necessary."

Today, even that liberal cover has been ripped aside, as the full Schachtian assault on labor and living standards is under way. The question remains: Will the modern-day Schachts be stopped?

Further documentation for this precis can be found in The Hitler Book*, edited by Helga Zepp-LaRouche, and published by the Schiller Institute in 1984, and* The Ugly Truth About Milton Friedman*, by Lyndon LaRouche and David P. Goldman (New York: New Benjamin Franklin House, 1980).*

Wall Street's Eyes On Social Security Loot

by Richard Freeman

In the Bush Administration's hell-bent-for-leather drive for Social Security privatization, one unrelenting reality stands out: If Bush forces privatization through, hundreds of billions, and soon trillions, of dollars will flow into the coffers and accounts of the largest Wall Street, Boston, City of London, and related banks, in the biggest financial bonanza since the 1840s Gold Rush.

These wealthy financial institutions, and the oligarchical families that own them, have, in their own name and through cut-outs like the Mont Pelerin Society's Cato Institute, single-mindedly driven privatization: They have opened up their deep wallets to finance the multi-hundred-million-dollar-a-year campaign for privatization. They have directly crafted and specified the key financial features of the reports and the proposed legislation on privatization.

The overseer of this drive has been George Shultz, the modern-day Hjalmar Schacht. The world financial system, overhung with $300 trillion in derivatives, racked by crises at Fannie Mae and Freddie Mac, the U.S. Federal and current-account deficits, and the like, is bankrupt. Shultz's group and allied super-wealthy circles desperately need to get Social Security's funds into the markets—to get their hands on the world's largest cash flow.

In carrying out this gambit, the financiers believe that charity begins at home: They will siphon off hundreds of billions of dollars in a variety of fees that will be applied to the newly created private accounts: administrative fees, management commissions, advisory fees, custodial fees, etc. This is what was done in Gen. Augusto Pinochet's Chilean model of social security privatization, imposed by Shultz's "Chicago Boys" economists. There, fees gouged 15-30% of the workers' private accounts. Indeed, a recent study puts the cumulative amount of fees to be collected in U.S. privatization at a rate only slightly lower than that in Chile.

Nineteen financial firms are identified as either actively organizing to impose privatization upon the United States, and/or preferring services best suited to privatization. Not accidentally, they feature the most powerful banks and insurance companies in the United States. They have the most to gain from privatization, and the most to lose from a global financial breakdown. These are: Alliance Capital (Axa Insurance); American Express; American International Group insurance; Barclays, PLC; Citicorp/Salomon Smith Barney; Deutsche Bank; Fidelity Investments; Goldman Sachs; Ed-

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ward Jones; Mellon Financial; Merrill Lynch; JP Morgan Chase; Morgan Stanley; Northern Trust; T. Rowe Price; Prudential Financial Management; Charles Schwab; State Street Corp.; and Vanguard Group. Together, these 19 firms have more than $7.5 trillion in banking assets, an additional several trillion dollars "under management," and more than 70 million individual customers in the United States. To that financial muscle is added their ability to meet regularly with key Cabinet officers like Treasury Secretary John Snow, and occasionally President Bush; to capture and draft the recommendations of the President's official Social Security Commission; and to generate a pro-privatization media barrage through intermediaries.

These 19 financial institutions are constantly at work, although frequently one will not recognize them unless one knows the front group or groups through which they operate. We will briefly show the work of one of Wall Street's main command centers, the Cato Institute. Second, we will explain how privatization works, and what Wall Street intends to gain from it. Third, we will look at the organizing and extended influence the 19 financial groups have achieved, by examining four case studies.

Cato and the Chile Model

The Cato Institute is the most important institution organizing for privatization. Between 1921 and 1945, certain wealthy oligarchical families built the world Synarchist fascist movement until it was defeated by the World War II coalition led by President Franklin Roosevelt. In 1947, they relaunched that same fascist movement by creating the Mont Pelerin Society in Vevey, Switzerland. In 1977, the Mont Pelerin Society created as an offshoot, the Cato Institute.

Cato has been funded by seven of the 19 principal financial institutions named above: American Express; American International Group; Citicorp/Salomon Brothers; Fidelity Investments; JP Morgan Chase; Prudential Securities; and Charles Schwab.

In 1995, Wall Street set up at Cato a command center to coordinate privatization in America: the Cato Project for Social Security Privatization. It appointed José Piñera as one of the Project's two co-chairmen. Under the direction of George Shultz, Piñera, as a minister in the Chilean fascist dictatorship of Gen. Augusto Pinochet, privatized Chile's social security system in 1981. The Chile model is a catastrophic failure: The bank managers of the privatized accounts charged fees as high as 33% of the value of the accounts, while more than half of Chile's 6.6-million-strong workforce will retire on benefits so small they will be plunged into poverty. Cato's stated objective is to pattern U.S. Social Security privatization after the "Chile model."

Through Cato, Wall Street took control of President Bush's misnamed Commission to Strengthen Social Security (CSSS), which was formed in 2001, and had 16 members. Three members of the Cato Institute or its Project were made members of the CSSS Commission (Sam Beard, Tim Penny, and Leanne Abdnor); another two members were people who are ideologically and personally very close to Cato, and frequently work on joint ventures with it. Finally, Robert Pozen, the vice chairman of Fidelity Investments, was made a CSSS member. The banks had 40% of the seats on the Commission, and dominated the proceedings. Andrew Biggs, the chief researcher for the CSSS, was Cato's lead Social Security analyst. By this process, Wall Street wrote the parameters and the specific recommendations of the CSSS's final report, published in December 2001, which President Bush adopted with minor changes in his Feb. 2, 2005 State of the Union address.

Small wonder Wall Street likes the plan. Wall Street wrote it.

Wall Street's Gain from Privatization

The general direction and parameters of the Bush plan are known, although not all of the details. But the initial Bush plan could serve as a "foot in the door" for even more extreme versions, were he able to ram the first version through Congress.

Under current law, the worker pays a payroll tax equal to 6.2% of his income toward Social Security. The employer pays a matching 6.2% tax, so that a combined total of 12.4% of the worker's income goes to Social Security each year. Under privatization, four percentage points of the worker's 6.2% would be diverted out of traditional Social Security, and into a Private Account (PA), managed by a Wall Street firm. So, roughly one-third of the combined worker and employer 12.4% tax would be shunted into the markets. Cato Institute recommends a more extreme 6.2% diversion, or one-half of the combined worker and employer tax.

The Bush plan also provides that, at first, a cap would be imposed, so that the maximum amount a worker could shift into a Private Account would be $1,000 a year. However, the cap would be phased out. An Administration official speaking Feb. 8, indicated that the cap may be phased out by $1,000 per year, so that the first year, the cap on what could be invested in a PA would be $1,000, the next year the cap would be $2,000, and so on.

With this as a basis, the system has two tiers; Bush presented only the first tier in his Feb. 2 address. Some would say this can be attributed to Bush's difficulty with the English language, and his distress in explaining anything not very simple, but an ulterior motive appears to have been involved.

Tier I: Tier I and Tier II would both be administered by the U.S. government, and contracted out to financial firms. This first tier would be similar to the Federal employees' retirement plan, the Thrift Savings Plan (TSP). The worker enrolled in a PA would be enrolled in "pooled stock or bond index-fund accounts." What this means, is that a worker would be allowed to invest in any mix he chose of five basic "index-fund" accounts. *An index fund is a passive account:* It mirrors the performance of a pre-selected group of stocks and

bonds. The worker doesn't choose the stocks or bonds, and the fund manager doesn't add to or subtract from the fund any new stocks or bonds. The five index funds would be: broad-based equity (like the Standard & Poor 500 index); U.S. government bonds; commercial (corporate) bonds; international stocks; and small-capitalization stocks. For example, the worker starting with $1,000, could invest $200 into each of the five funds, $1,000 into a single fund, etc.

These and other restrictions—a worker could change into or out of his fund account only once a year—are intended to reduce transactions, and keep fees down. The yearly fee is expected to be a relatively low 30 basis points (0.3%). The government would bear a good deal of the administrative cost for Wall Street, and a large company like Barclays or State Street could make a profit based on volume.

Tier II: Tier II involves, potentially, a lot of risk, and is the tier that Bush doesn't want to focus on (except when claiming big profits). A worker would be eligible to enter Tier II when his account balance reached a minimum level, most likely $5,000. At Tier II, his account could be *actively managed.* Investment managers could offer the worker a selection of mutual funds, individual stock accounts, etc. All these products, and the active management, would mean a variety of fees. For an average mutual fund account, over the course of a year, the fee structure comes to 1% (of the value of the assets in the account). That may seem a benign, even negligible, amount to a newcomer. The key is to remember that fees *accumulate over the years.* For example, assume that a worker starts a Tier II account with $5,000, and then adds to that amount each year. Assume that the worker will keep that $5,000 floor in the account for 40 years. If fees are 1%, he will pay a 1% fee each year, for 40 years. That's 40%, or $2,000 of his original investment. If the account does well, the worker may be willing to forget the fee. But if the account bombs, then the fee will one of the elements draining it. This is exactly what has happened in Chile since 1981, with disastrous consequences.

According to a 2004 study by University of Chicago Business School Professor Austan Goolsbee, financial firms that manage the workers' PAs which would be set up by Bush's privatization, could rip off management and other fees equal to 10-25% of the value of the accounts, an immense windfall. At Tier II, most of the firms that did not come in during Tier I would enter the picture, ranging from Charles Schwab and Edward Jones, to Merrill Lynch and T. Rowe Price.

New Loot

However, from the upper levels of the oligarchy's strategic picture, of much greater significance than fees is the need to grab Social Security's funds to prevent financial meltdown—from anticipated or unfolding eruptions in the housing bubble, the cancerous derivatives markets, or the yawning current account deficit.

They must strive to get their hands on as much as possible, as quickly as possible. Even were privatization rammed through, it is not certain how many workers would join—or be coerced to join—the privatized accounts. The Shultz forces might try to replicate what was done in Chile, where workers were bribed with toasters and gifts, and then stampeded into private accounts with threats that the country's traditional social security was going broke.

One well-placed Wall Street source told *EIR* Feb. 14 his firm projects that $75 billion will flow into financial markets during privatization's first year. This could build to $250 billion and then above that. How significant is $250 billion of actual cash? Consider that since 1996, the average inflow into U.S. mutual funds is $200 billion a year. This $250 billion flow would be larger than that. It would also be equal to nearly half of the annual $600 billion inflow of foreign capital into the United States that covers America's current account deficit. That could be strategically necessary, as the leading European and Asian nations, shaken by the U.S. dollar's plunge, consider cutting back that capital flow.

The Social Security Administration's actuarial projection is that workers and employers combined will pay payroll tax contributions to Social Security of $582 billion in 2005, rising to $898 billion in 2013. The political and financial stakes are high.

Case Studies: Power To Make Policy

The 19 principal financial institutions have been pouring money out to push the privatization, and have developed extended organizing networks to push privatization through. They have also displayed business activity so corrupt that their ability to be trusted anywhere near a worker's hard-earned Social Security money is in doubt.

Charles Schwab and Co.: The top initiators of this social engineering campaign are the leading Synarchist financiers like George Shultz, the controller of Arnold Schwarzenegger. Shultz, for example, has directed the Charles Schwab brokerage firm into becoming a major player in Social Security privatization. In 1997, Shultz joined the board of the San Francisco-based world's largest "discount broker," and brought in Condoleezza Rice, his protégé, as well. Schwab has become one of the largest brokerage firms, in number of accounts, in the world. It manages client assets of more than $1 trillion, and now also owns the 150-year-old New York-based U.S. Trust, which is a manager for "uncommon families with more than $100 million."

Under Shultz's guidance, the Charles Schwab firm played a major role in Bush's 2002 Waco "economic summit," and an even more prominent role in steering Bush's Dec. 16-17, 2004 "economic summit" in Washington, which was a propaganda barrage for Social Security privatization. Following Shultz's lead, Charles Schwab is personally working out plans with the Bush Cabinet, meeting frequently with Treasury Secretary John Snow, who is coordinating with Wall Street on plans to loot Social Security. Schwab funds the Cato Institute's Project on Social Security Privatization, financially backs Republicans who will push Social Security priva-

tization, and is likely to be a prime beneficiary thereof. Said a source at another Wall Street firm in the middle of the privatization campaign, "Schwab has a mutual funds supermarket. . . . They are well-positioned. They've been lowering their fees, and would gain access to a lot of smaller retail brokerage accounts." The AFL-CIO has been picketing Schwab offices to expose the firm's gross conflict of interest in promoting dismantling of Social Security in order to enrich itself by managing the resulting private accounts.

On Jan. 26, 2005, the AFL-CIO held picket lines outside of Schwab's San Francisco and Boston offices. A statement by AFL-CIO president John Sweeney declared, "It's unconscionable for Schwab and other financial firms to promote a plan that will cut Social Security benefits for working families." Sweeney said Schwab was lining its pockets, and mired in a conflict of interest. The AFL-CIO pointed to the fact that Charles Schwab Corp. is a member of the Alliance for Worker Retirement Security (AWRS), an outfit set up by the Mont Pelerin Society's Cato Institute to promote Social Security privatization. It's funded by the National Association of Manufacturers and Schwab, among others.

JP Morgan Chase: JP Morgan Chase is America's third-largest bank, with $1.1 trillion in assets, and the world's largest holder of the highly speculative and risky instruments called derivatives, with $43 trillion in deriviatives. George Shultz heads its International Advisory Board.

JP Morgan Chase is a long-standing funder of the Cato Institute's Project on Social Security Privatization. William Harrison, Jr., JP Morgan Chase's chairman and CEO, is a director of the Financial Services Forum (FSF), a bank and brokerage business group. The FSF just helped to form a new umbrella group, the Coalition for Modernization and Protection of America's Social Security (Compass), which has announced it will spend millions on a media campaign for privatization. Other CEOs from FSF who have joined in the new Compass group are those of Citigroup, Fidelity Investments, Goldman Sachs, and Morgan Stanley, all among the 19 financial institutions running privatization.

In early January, Treasury Secretary Snow said he would consult with JP Morgan Chase about privatization's funding costs. The fitness of JP Morgan Chase to legitimately represent private accounts is certainly in question. In July 2003, the bank had to pay $135 million in fines for helping Enron disguise $8.3 billion in debt, which should have been on Enron's balance sheet.

State Street Bank Corp.: Representing the nastiest Boston Brahmin families, State Street Bank has been involved in retirement income and accounts since 1792. State Street has $1.4 trillion in assets under management, one of the three largest such institutions in the United States. State Street reports that it is "the #1 investment manager of U.S. pension fund assets," and the "eighth-largest investment manager worldwide."

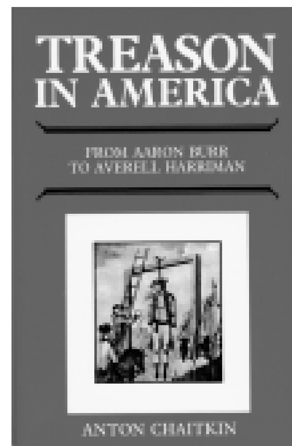
Because of its enormous size and data-keeping capability, State Street is frequently mentioned, along with Barclays Bank, as one of the two or three dominant institutions that would manage Tier #1 Private Accounts, if privatization were adopted. State Street is pursuing that.

In 1996, Marshall Carter, chairman and CEO, and William Shipman, who was a principal of State Street Global Advisors (the bank's major investment arm), jointly wrote a book-length diatribe, *Promises To Keep: Saving Social Security's Dream.* It propagated the rhetoric of a "Social Security crisis," and asserted that "Social Security is irredeemably flawed in design." State Street Bank took the highly unusual step of copyrighting the book under the name of State Street Bank itself, rather than under the names of the two authors. The book was published by the right-wing Regnery Press.

In 1995, Shipman helped usher into existence the Cato Institute's Project on Social Security Privatization, taking over as one of its two co-chairmen, a post he still holds. The other co-chairman is José Piñera, an architect of the destruction of social security in Chile under Pinochet. State Street funds the Cato Project. On Feb. 8 of this year, Shipman was a featured speaker at Cato's two-day conference on privatization, speaking on the panel "The Tough Choices: Transition, Risk, Administration." Shipman told of a "creative" study that he and his associates had conducted to "prove" that administrative fees for Social Security privatization would be very low. Afterwards, Shipman told *EIR* he is "holding discussions" with people in the Executive branch on the "workings of Social Security reform."

Treason in America

From Aaron Burr To Averell Harriman



By Anton Chaitkin

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