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## From the Associate Editor

Just prior to the Democratic Senators' announcement that they would filibuster Samuel Alito's confirmation as Supreme Court justice, the *Wall Street Journal* ran a jubilant editorial, "The Roberts-Alito Court." Confident that the Democrats would not act on principle, but would play electoral politics, the country's media bastion of neo-conservatism crowed on Jan. 26 that Roberts and Alito are "poised to influence the law and culture for 20 years or more. All those Federalist Society seminars may have finally paid off."

Our *Feature* documents both the fascist danger to the nation if the *Journal* is right, and the significant opposition that is emerging, at the 11th hour, to Alito's confirmation.

The problem, as identified by Lyndon LaRouche in a statement quoted on p. 4, is that too many people, including those in leading positions, try to "go along to get along"—just as Hitler's opponents did in 1933-34. To those who say that Alito is really a "nice" person (a family man—why, his wife cried during the Senate hearings!): Remember what people said about the "family men" in the Nazi hierarchy! Steve Douglas presents the history of that gutless capitulation to Nazism, including the role of Carl Schmitt, the mentor of Alito's Federalist Society, in providing the legal justification for Hitler's "unitary executive" power.

But the blatant moves toward fascism in Washington are creating a growing backlash. Not only are some leading Democrats realizing the threat, but international media are fingering Carl Schmitt (see p. 7), and in Ibero-America, the fascists in Chile were smashed in the Presidential elections by Michelle Bachelet, even as the "Presidents' Club" of continental leaders mobilizes in their national interest, against the International Monetary Fund.

Elsewhere in this issue, we emphasize LaRouche's solutions to the economic-financial crisis. Last week, he elaborated the concept of a Federal capital budget for long-term financing of vital infrastructure projects. President Eisenhower's National Defense Highway Act of 1955 was a useful example of exactly such an approach, as Richard Freeman reports. And, in the context of the draconian layoffs announced by Ford, we present a chronology of LaRouche's warnings of the past year, and reprint some of his key statements on how to solve the auto crisis.

*Susan Welsh*

# EIR Contents

## Cover This Week

*The LaRouche  
Youth Movement  
campaigns in San  
Francisco on Jan.  
16, 2006.*



EIRNS/Alexandra Philips

### **4 The Alito Fight: LaRouche Says ‘No’ to Germany 1933-34**

Lyndon LaRouche issued a statement on Jan. 25, demanding that Senate Democrats rise to the historic occasion and filibuster to defeat the nomination of Judge Samuel Alito to the U.S. Supreme Court, on the ground that Alito is a Nazi who promotes the judicial outlook of Hitler’s “Crown Jurist,” Carl Schmitt. “To repeat the mistake of Germany in January-February 1933,” LaRouche wrote, “is to take on oneself the guilt for those who were tortured and murdered so mercilessly by the forces of the Hitler whom the relevant leading private bankers brought to power then, and would do the like again today.”

### **7 International Media Expose U.S. ‘Schmittlerian’ Revival**

### **8 Capitulation to Fascists Can Be Deadly: Take Germany, Spring 1933-August 1934**

Steve Douglas exposes the illusions of those who capitulated to Hitler’s seizure of dictatorial power—illusions which we find again in today’s temporizing by leading opponents of fascist jurist Samuel Alito and his misnamed Federalist Society.

### **14 Schmitt’s Justification of Hitler’s Blood Purge**

## National

### **16 Democratic Forum Takes Up Apollo-Style Economic Program**

Leading Democrats returned to Washington before the end of the recess, to attend a forum on the “Innovation Agenda,” first presented by House Minority Leader Nancy Pelosi on Dec. 2.

### **18 Capital Budgeting for Economic Growth: Eisenhower’s National Defense Highway Act**

The idea of a separate Federal Capital Budget to fund generational and multi-generational great projects, discussed by Lyndon LaRouche in last week’s *EIR*, has been used on a number of occasions in American history, and always achieved remarkable results. An example is President Eisenhower’s National Defense Highway Act.

### **23 President Eisenhower: Build America’s Roads**

A speech to the Congress on Feb. 22, 1955.

## Economics

- 26 Ford Layoffs Require LaRouche Policy: U.S. Auto Capacity Is 'Excess' Until Congress Acts on Retooling**  
Two months after its chairman William Ford, III spoke in Washington on the need for an industrial revival in the United States, and diversification in the auto industry, Ford Motor Company announced the layoff of 30,000 North American production workers.
- 28 Bill Ford's Message on Auto**  
A Nov. 26, 2005 memorandum by Lyndon H. LaRouche, Jr.
- 29 The Auto Crisis: What LaRouche Said, and What Happened**
- 32 LaRouche Open Letter to Bill Ford**  
Dated Nov. 23, 2005.
- 33 Auto and World Economic Revival**  
A follow-up to the Ford letter by Lyndon LaRouche, dated Nov. 23, 2005.

## International

- 36 Kirchner Rallies South America To 'Build the New Times'**  
"The idea of South America as the Cinderella of the world is over," said Argentine President Kirchner during a visit to Brazil on Jan. 18. "We don't want to be the backyard anymore; we want to take an active part in building the new times that await us."  
**Documentation:** Argentina-Brazil Accord Moves Toward Integration.
- 41 Nazi Alito's Friends Lose in Chile Elections**
- 44 Negotiations with China, Russia Offer Way Out of Iran Crisis**
- 46 Philippines Is Dragged Along in Cheney's Drive for Fascism**
- 50 Peretz Campaign Offers Israel a Turning Point on Economic Policy**  
An interview with Danny Gutwein.
- 55 One in Four Israelis Is Living in Poverty**

## Interviews

- 50 Danny Gutwein**  
Professor Gutwein teaches the Social and Economic History of the Jewish People at Haifa University in Israel. He is among a group of academics and intellectuals who have been supporters of Labor Party Chairman Amir Peretz.

## Departments

- 35 Report From Germany**  
Stop the Casino Economy!

## Editorial

- 56 The World Cannot Survive Without Nuclear Energy**

## The Alito Fight: LaRouche Says 'No' To Germany 1933-34

by Jeffrey Steinberg

On Jan. 25, 2006, Lyndon LaRouche issued his most impassioned statement to date, demanding that the U.S. Senate defeat the nomination of Judge Samuel Alito to the Supreme Court, on the grounds that Alito is a Nazi who promotes the judicial outlook of Hitler's "Crown Jurist," Carl Schmitt. Under the title "1933 And Now," LaRouche wrote:

"Clearly, even most leading Senate Democrats have failed to grasp the essential issue of Alito. They have obviously failed to relive the experience of those, during January and February of 1933, who failed to recognize what should have been the obviously already looming danger of an Adolf Hitler dictatorship. Their cowardice then created the conditions under which Hitler was made a dictator in the immediate aftermath of Hermann Göring's '9/11,' the setting of fire to the Reichstag.

"Many of those who refused to recognize the Hitler danger before the Reichstag incident, were soon rewarded by being shuffled into prisons, shot preemptorily, or shovelled into what became the concentration-camp system. What made that possible was Germany's toleration of Carl Schmitt's award to Hitler of the same powers which the Supreme Court faction of Carl Schmitt's Federalist Society fellow-travellers such as nominee Alito represents.

"Those of us from my generation, and some others, who lived through the experience of that tragic outcome brought about by those who refused to, as the saying goes, 'exaggerate the Hitler danger' then, look sadly at those in the Senate and elsewhere today who seem inclined to repeat the lesson of history, from January-February 1933, weeks when Hitler could still have been stopped.

"They either do not remember, or have chosen to forget, that the prompting of the Hitler coup, which had been promoted by the head of the Bank of England, Montagu Norman, and his Anglo-American-French and other private banker accomplices, was motivated by the events surrounding and following the 1931 founding of the Bank for International Settlements. This all occurred in the context of a great international monetary-financial crisis, like that of today. Then, as now, it



White House/Paul Morse

*“Clearly,” wrote Lyndon LaRouche on Jan. 25, “even most leading Senate Democrats have failed to grasp the essential issue of Alito. They have obviously failed to relive the experience of those, during January and February of 1933, who failed to recognize what should have been the obviously already looming danger of an Adolf Hitler dictatorship.” The next day, a group of Senate Democrats announced their plan to filibuster: Who will join them?*

could happen here!

“It is notable that many relevant members of the Senate and others do not know of that lesson of history; the problem is the influence of sophistries catalogued under the rubric of ‘go along to get along.’ Let them look into the millions of despairing faces of those who died so cruelly in Hitler’s camps, as a result of the same doctrine which the Federalist Society has adopted from the same Carl Schmitt known as the Crown Jurist of the Nazi system. To repeat the mistake of Germany in January-February 1933, is to take on oneself the guilt for those who were tortured and murdered so mercilessly by the forces of the Hitler whom the relevant leading private bankers brought to power then, and would do the like again today.”

### **Filibuster!**

Clearly LaRouche’s warnings are now resonating with leading Senate Democrats. As this issue of *EIR* goes to press, the Senate is poised to vote on a cloture motion, brought by Senate Majority Leader Bill Frist (R-Tenn.), to bring the Alito nomination to an up-or-down vote, perhaps as early as Jan. 31, just hours before President Bush is scheduled to deliver his State of the Union message. As of Jan. 26, a group of Democratic Senators, led by John Kerry (Mass.) and Edward Kennedy (Mass.), have announced that they will lead a filibuster to block the Alito nomination. As of this moment, the outcome of that filibuster is unknown. However, certain crucial features of the fight over the Alito nomination are clear—despite outlandish efforts by most

“establishment” media to portray the defeat of Alito as a “lost cause.”

On Jan. 23 and again on Jan. 26, the *New York Times* published lead editorials, demanding that the Senate defeat the Alito nomination. In unusually strong language, the *Times* editors wrote, Jan. 23: “Judge Alito may be a fine man, but he is not the kind of justice the country needs right now. Senators from both parties should oppose his nomination. It is likely that Judge Alito was chosen for his extreme views on presidential power. . . . He has supported the fringe ‘unitary executive’ theory, which would give the President greater power to detain Americans and would throw off the checks and balances built into the Constitution. . . . The real risk for senators lies not in opposing Judge Alito, but in voting for him. If the far right takes over the Supreme Court, American law and life could change dramatically.”

The second *Times* editorial, published on Jan. 26 under the provocative headline “Senators in Need of a Spine,” was even more blunt:

“It is hard to imagine,” the newspaper editorialized, “a moment when it would be more appropriate for senators to fight for a principle. . . . The judge’s record strongly suggests that he is an eager lieutenant in the ranks of the conservative theorists who ignore our system of checks and balances, elevating the presidency over everything else. He has expressed little enthusiasm for restrictions on presidential power and has espoused the peculiar argument that a president’s intent in signing a bill is just as important as the intent of the Congress in writing it. This would be worrisome at any time,

but it takes on far more significance now, when the Bush administration seems determined to use the cover of the 'war on terror' and presidential privilege to ignore every restraint, from the Constitution to Congressional demands for information."

The editorial concluded: "A filibuster is a radical tool. It's easy to see why Democrats are frightened of it. But from our perspective, there are some things far more frightening. One of them is Samuel Alito on the Supreme Court."

In commenting on the *New York Times* editorials on Jan. 27, LaRouche emphasized that the real issue on the table with the Alito nomination is the prospect of imminent fascist dictatorship over America, sponsored by the same Synarchist banking cabal that installed Hitler in power in Germany in 1933.

Not only would the Alito confirmation create a Supreme Court majority adhering to the Carl Schmitt *Führerprinzip* (Leader Principle). Vice President Dick Cheney would seize upon the Alito victory to press for dictatorship, through some strategic provocation, like a pre-emptive war against Iran, perhaps using nuclear weapons. Such an attack would assure a perpetual global asymmetric war against the United States. Under such insane circumstances, the last cloak of constitutional rule would be stripped. "The editors and publishers of the *New York Times* clearly understand that these are the stakes, and, to their credit, they have weighed in against fascism. No one can take that away from them," LaRouche said.

And now, leading elements of the Democratic Party have taken up the same fight. Senator Kerry issued a statement from Davos, Switzerland on Jan. 26, announcing his intention to launch a filibuster against Alito. Kerry's announcement caught the White House totally by surprise, as evidenced by press spokesman Scott McClellan's childish attacks on the Senator at the White House briefing the next day, mocking Kerry's presence at a Swiss "ski resort," although at least three Bush-Cheney Cabinet members were attending the same Davos World Economic Forum, along with Kerry and other members of the House and Senate.

Senator Kerry returned to Washington on Jan. 27 and spoke from the floor of the Senate about his decision to lead the filibuster. "Confirming Judge Alito to a lifetime appointment on the Supreme Court," he said, "would have irreversible consequences that are already defined if Senators will take the time to measure them. . . . I know it is an uphill battle. I have heard many of my colleagues. I hear the arguments: Reserve your gunpowder for the future. What is the future if it changes so dramatically at this moment in time? What happens to those people who count on us to stand up and protect them now, not later, not at some future time?"

"This is the choice for the court now," Kerry continued. "I reject those notions that there ought to somehow be some political calculus about the future. This impact is going to be now. This choice is now. This ideological direction is defined now."

Within hours of the Kerry announcement, a number of

leading Democratic Senators, including Hillary Clinton (N.Y.), Richard Durbin (Ill.), Barbara Boxer (Calif.), and Russell Feingold (Wisc.), strongly backed the filibuster. By Friday Jan. 27, a number of other Democrats, including Minority Leader Harry Reid (Nev.) and Diane Feinstein (Calif.), who had earlier opposed the idea of a filibuster, announced that they, too, would back Kerry and Kennedy and vote against cloture.

Washington sources have confirmed that former President Bill Clinton has weighed in strongly, behind the scenes, against Alito. The significance of the former President's role in the belated Democratic mobilization against the Alito confirmation cannot be overestimated.

### **The White House 'Lunatic Factor'**

The longer that the Alito fight stretches out, the more likely it is that Democrats will unify behind the filibuster. And the longer the fight, the more opportunities will be provided to the White House to take outrageous steps that will anger the American people, steel the Democratic opposition, and alienate sane Republicans.

Typical of the lunatic actions already taken by the Bush-Cheney White House: On Jan. 26, the President announced that he would resubmit to the Senate his nomination of Brett Kavanaugh to the U.S. Appellate Court for the District of Columbia. Kavanaugh, a 40-something Federalist Society *wunderkind*, who has never been a judge, was the point-man for Bush 43 judicial selections, and was a deputy to White-water Independent Counsel Kenneth Starr, another Federalist Society fixture. Kavanaugh's nomination had been explicitly pulled last year, as part of the agreement among a core group of Senate Democrats and Republicans, to kill Dick Cheney's "nuclear option" to eliminate judicial filibusters. The renomination of Kavanaugh was a petty provocation by the President's men.

The President's own behavior is also becoming even more erratic, as a majority of Americans now say that if he did, indeed, order the National Security Agency to spy on American citizens, he should be impeached. In a nearly incoherent, and borderline paranoid television interview with CBS-TV's Bob Schieffer on Jan. 27, Bush asserted an "I am the law" interpretation of Presidential powers, and boasted that he ordered the spying on Americans. "I made the decision of tapping the phones of citizens making calls to abroad and somewhat linked to al-Qaeda," Bush said, "because my special advisors told me that's the best thing to do." Asked why he didn't use the Foreign Intelligence Surveillance Act provision, allowing him to get authorization for wiretaps 72 hours after the fact, Bush rambled, "I told that to my advisors, but they told me that it would not work. . . . The enemy is hearing us every time. Right now they are hearing us!"

Bush's bizarre behavior during the Schieffer interview prompted one astute observer to speculate: Will Bush show up for the State of the Union address with aluminum foil over his head?

## International Media Expose U.S. 'Schmittlerian' Revival

With the spotlight being trained by the international LaRouche movement on the Nazi character of the Cheney-Bush Administration, which has adopted the *Führerprinzip* of Hitler's "crown jurist" Carl Schmitt, the international media has begun to pick up on this reality. Here are three examples:

### **Professor Peter Wagner, "Democracy in Distress," *The Frankfurter Rundschau*, Jan, 17, 2006.**

The feature article begins by contrasting the reaction of the government of Chancellor Gerhard Schröder to the floods of 2002, with the reaction of President George W. Bush to the hurricane damage in New Orleans.

After a subhead "Exceptional Situation—according to Schmitt," the article continues: "This comparison invites you to consider anew Carl Schmitt's thesis that the sovereign is the one who controls the 'exceptional situation.' Schmitt was thinking of conflicts in which friend and foe were in a struggle for control of the state. Later his students in the current U.S. government are ready at all times to create new enemies, against whom the battle for dominance can be waged. Over and over again Schmitt and his imitators thought of the possibility that the 'enemy,' against whom he must exercise his political capability, could be nothing more than a political opponent. . . ."

The article goes on to discuss how the Schmitt theory is used in the United States to fight "the enemy," while going against the general welfare of the citizens.

### **"Protest in Mexico Against Alito," *Associated Press*, Jan. 23, 2006. *Posted as a Spanish-language wire by its Mexico City office, it was picked up by the Spanish-language TV station Univision.***

"Some 20 people protested in front of the U.S. Embassy in Mexico City against the possible confirmation of Samuel Alito, whom they compared to Hitler, to the U.S. Supreme Court.

"The LaRouche Youth Movement, an international organization which backs the ideas of American economist Lyndon LaRouche, who some time back had presidential aspirations, organized the demonstration.

" 'Alito puts forward a doctrine which is, frankly, Nazi,' said one of the organizers of the demo, Erick de Leon, 25 years old. 'We have to stop this ultraright policy in the U.S., before it gets to Mexico.' "

"Some of their signs mentioned Adolf Hitler and pointed out that there was no way to honestly debate including a Nazi

leader in the U.S. government.

"The group also organized demonstrations in front of the U.S. Embassies in Argentina, Colombia and Peru."

### **"The Sulfurous Carl Schmitt," *El País*, by Luis Bassets, Jan. 26, 2006. *The Spanish daily exposed the philosophy behind Alito.***

"We will have to urgently consult philosophers of Law, and learned and eminent jurists, for them to explain to us what is happening in the most outstanding democracy in the world, a country which moreover is a friend and ally of Spain and of the European Union. A handful of jurists—from Attorney General Alberto Gonzales to the candidate for the vacant Supreme Court seat Samuel Alito—have been churning out purportedly constitutional arguments designed to place the President of the United States above the law and the other powers. This deference is not gratuitous, but is driven by objectives that are as precise as they are disturbing: to give legal cover to activities so un-edifying as indefinite detention without trial of suspected terrorists, submitting those detainees to torture, jailing and interrogating them in clandestine dungeons situated in countries without guarantees or controls, or conducting unauthorized telephone wiretaps without any judicial oversight. . . ."

"Samuel Alito, candidate for a lifetime Supreme Court post, is the author of the unitary Executive theory, a peculiar way of defending concentration of power and turn the President into the interpreter of the Constitution. Thanks to the invention of some strange 'signing statements,' the President can correct the content of a law by later introducing his own peculiar interpretation. . . . Likewise, Alberto Gonzales, who promoted the memos authorizing violent interrogations, just manufactured another document justifying Presidential power to order wiretapping and taping of telephone calls without judicial oversight.

"These unscrupulous geniuses of juridical juggling appear to have come out of the same mold. Their writings have a sulphurous spitfire which weds them to Carl Schmitt, the skillful jurist who provided the conceptual arguments for the Hitler dictatorship; among them, the absolute superiority of the Executive, the glorification of political decision above the law, and the figure of the sovereign who decides on a state of exception. It is not the first time that Constitutional law has been suspended in the United States, but never has it been done with the intent to make it permanent. The legal basis used now to grant so much power to the President as to transform him into the lord of life and death, of freedom and privacy, is the mandate he received from Congress on Sept. 18 [2001] to wage the war on terrorism. It has no expiration date, because the President himself has acknowledged that this is a war without end; and with consequences as sad as they are evident. 'Our Constitutional design is in danger,' Al Gore declared a few days ago. And veteran columnist William Pfaff went further: 'the President and his advisors are putting forward an American doctrine of Presidential dictatorship.' "

# Capitulation to Fascists Can Be Deadly: Take Germany, Spring 1933-August 1934

by Steve Douglas

**Editor's Note:** *Over recent weeks, leading opponents of the fascist jurist Samuel Alito have been temporizing on the fight to stop his accession to the Supreme Court, with excuses of varying sorts. The following article, adapted from a lengthier piece first published in The New Federalist on July 8, 2002, is dedicated to destroying the illusions of those who are either deluding themselves, or acting as cowards, in the face of the threat of Hitlerism in the United States, which the Alito nomination represents. If Alito is confirmed, the United States itself is facing a process similar to that of Germany, between the Spring of 1933 and August 1934.*

Adolf Hitler was installed as Chancellor of Germany on Jan. 30, 1933, by the aged President Paul von Hindenburg, during the depths of a raging world depression. Hitler's hold on power as he was sworn in as Chancellor was anything but absolute. Even though Hitler had been installed as Chancellor, his Nazi Party remained in the distinct minority in his own Cabinet, holding only 3 of the 11 posts. Furthermore, the treacherous technocrat Franz von Papen, a former Chancellor and close personal friend of President Hindenburg, was named Hitler's Vice Chancellor. He had secured a promise from Hindenburg that Hitler would never be allowed to meet with the President except when in the presence of von Papen, who was to act as a kind of "Co-Chancellor," and keep Hitler on a "short leash."

In his first Cabinet meeting on Jan. 30, Hitler proposed that new Reichstag (lower house of parliament) elections be held on March 5, hoping that his Nazis would be able to secure a majority of the vote. The members of the Cabinet endorsed Hitler's call for elections, but only after he assured them that the Cabinet's composition would remain unchanged—irrespective of the outcome of the elections. They, like von Papen, were deluded in their belief that they were effectively "controlling" Hitler and the government.

## The Last 'Democratic' Election

Calls for decorum and restraint notwithstanding, the "election campaign" was an utterly brutal one. In early February, Hitler's government banned all Communist Party (KPD) meetings, and banned their press. Leading Socialist newspapers were also suspended, and Social Democratic Party meetings were alternately banned or broken up by Ernst Röhm's

brown-shirted SA thugs. The Catholic Center Party was also targeted for SA disruption. Fifty-one anti-Nazi activists were reported as murdered during the 34-day campaign, while the Nazis claimed that 18 of their members were killed.

Events took a dramatic turn for the worse on Feb. 27, 1933. That night, the Reichstag—the equivalent of the U.S. Capitol building—was burned down. While a mentally unstable Dutch Communist by the name of Marinus van der Lubbe was ultimately convicted and executed for the crime, it is clear that he was no more physically or mentally capable of having been the mastermind/perpetrator of the crime, than Lee Harvey Oswald was with respect to President Kennedy, or Osama bin Laden is, with respect to the events of Sept. 11, 2001. Abundant evidence, including reports of statements from Reichstag President and later Gestapo chief Hermann Göring himself, indicates that the fire was set up on orders of the Hitler government—i.e., Göring.

On the day after the fire, the Göring-von Papen Prussian government issued a long statement, claiming that it had found Communist documents which "proved" that: "Government buildings, museums, mansions, and essential plants were to be burned down. . . . Women and children were to be sent in front of terrorist groups. . . . The burning of the Reichstag was to be the signal for a bloody insurrection and civil war. . . ."<sup>1</sup>

Göring's Prussian government promised to publish the "documents proving the Communist conspiracy," but somehow it never got around to doing so.

## Rule by Emergency Decree

Meanwhile, on the same day, Feb. 28, Hitler prevailed upon Hindenburg to sign an emergency decree—*Notverordnung*—"for the Protection of the People and the State." It suspended seven sections of the constitution which guaranteed individual and civil liberties. It specified that: "Restrictions on personal liberty, on the right of free expression of opinion, including freedom of the press; on the rights of assembly and association; and violations of the privacy of postal, telegraphic and telephonic communications; and warrants for house searches, orders for confiscations as well as

1. William L. Shirer, *The Rise and Fall of the Third Reich* (New York: Simon and Schuster, 1959), p. 195.



*Hilter ruthlessly manipulated the delusions of every “constituency,” until nothing stood in his way. On Aug. 19, 1934, ninety percent of German voters affirmed Hilter as the “Führer.” Tens of thousands attended Nuremberg rallies like the one in the photo.*

restrictions on property, are also permissible beyond the legal limits otherwise prescribed.”

This emergency decree also authorized the Reich administration of Hitler to take over the functioning of any state government, if it were deemed necessary.

Armed with the dictatorial powers of the *Notverordnung*, Hitler jailed over 4,000 Communist officials, as well as large numbers of Social Democratic and Liberal leaders, during the concluding week of the campaign. More restrictions were slapped on the non-Nazi and non-Nationalist press. Even members of the Reichstag, who were supposed to be immune from arrest, were incarcerated.

With Hitler’s propaganda chief Josef Goebbels doing the orchestrating, the full weight of the government was deployed on behalf of the Nazi Party election effort. Goebbels brought Hitler’s campaign events and speeches to every hamlet and village in the country. The effects of Hitler’s campaign spending and brown-shirted thuggery were thus amplified manifold.

With all that, the Nazis won only 44% of the vote on March 5, falling well short of the majority Hitler had demanded.

### **The Enabling Law**

What did the non-Nazi majority of his Cabinet and the newly elected Reichstag proceed to do? They congratulated Hitler on his fine campaign! Worse, on March 23, they pro-

ceeded to enact, by overwhelming majority, the *Ermächtigungsgesetz*—the “Enabling Law.” It was this law which ratified Hitler’s virtually unlimited powers to rule by emergency decree, as was otherwise specified in the *Notverordnung* of Feb. 28. This act constituted a legislative initiative of practically historically unrivalled self-delusion and suicidal madness. Since the passage of the Enabling Law embodies the distilled essence of the form of delusion which grips many of the American people and their correspondingly deluded elected representatives today, it is worth examining the circumstances surrounding this particular, lamentable, historical moment in some detail.

More than an absolute majority for the Nazi Party in the Reichstag, Hitler wanted complete freedom from the “shackles” of the Weimar Constitution. He enjoyed virtually unlimited powers in the form of the Feb. 28 *Notverordnung*, and could, therefore, arbitrarily circumvent it, given the declared state of emergency. Yet, obsessed as he was with maintaining both the appearance of overwhelming public support and a plausible veneer of “legality,” Hitler demanded a change in the Weimar Constitution which would grant him virtually dictatorial powers for an open-ended period of time. Since any constitutional change required the approval of at least two-thirds of the Reichstag, Hitler busied himself with securing this objective.

The Nazi Party had 288 seats in the Reichstag, and its collaborators in the Nationalist Party had 52 seats, giving



*The political leadership capitulates: "Hitler's hold on power, as he was sworn in as Chancellor, was anything but absolute." In this 1934 photo, Hitler is shown deferring to President Hindenburg (center).*

Hitler 340 votes upon which he could rely. Since there were 647 seats in the Reichstag, at least 432 votes were required to secure a two-thirds majority. If one declared the 81 Communist members to be "ineligible" for seating, as Hitler's government ultimately did—and did so "legally" under the *Notverordnung*—then there would be only 566 seats in the Reichstag, and 378 votes would therefore represent the requisite two-thirds majority. Hitler courted the Catholic Center Party of Monsignor Kaas and former Chancellor Heinrich Brüning, to put himself over this threshold, accordingly.

He did so against the backdrop of the spectacular political theater that he and his newly appointed Minister of Propaganda, Josef Goebbels, staged at Potsdam. The anti-Semitic, anti-Christian, gnostic Adolf Hitler selected the Christian Garrison Church in Potsdam, where the bones of Frederick the Great lay buried, and where the Hohenzollern Kings had worshipped, as the centerpiece for all activities associated with the opening session of the new Reichstag.

Hitler's Potsdam machinations had achieved the desired effect. The credulous who wished to be deluded about his actual murderous intent, or who chose to blind themselves to the hideous strategic implications of his Anglo-American sponsorship, now had the theatrical pretext to do so. Nowhere were these delusions more rampant than in the "negotiations" that produced the Enabling Law.

### **'Negotiations' in Fantasy-Land**

The "discussions" which the members of the Cabinet and various non-Nazi Party leaders conducted with Hitler, during March 1933, about various clauses and features of the Enabling Law, were colored by the following principal delusions: 1) Hitler was a "German" politician, just like them, and

therefore would "play by the same rules"; 2) Hitler could be "tamed" by the combined forces of the German political establishment; 3) Hitler's Anglo-American patronage need not be addressed; 4) Hitler's government would soon be shattered on the shoals of the world Depression; 5) Hitler was a "man of his word," who would "keep his political promises"; 6) President Hindenburg represented an effective and efficient institutional counterweight to Hitler's most extreme tendencies; and 7) when in doubt, always opt for the "lesser evil."

So, on March 23, the Center Party's leader Monsignor Kaas, was offering words of reassurance to his restive and fearful Party members, based upon solemn promises that he had received from Herr Hitler! He told the Center Party Reichstag members that Hitler had personally promised him that, even after the passage of the Enabling Law: 1) No measure contrary to the will of President Hindenburg would be implemented; 2) future laws adopted by his regime would be designed only after thorough consultation with a "working committee" of the Reichstag; 3) "equality before the law" would be maintained for everyone in Germany except Communist Party members; 4) Catholic Center Party officials would not be persecuted; 5) neither the existence of the individual German states nor the rights of the Church would be limited; and 6) the judiciary would remain "independent"—free from any political interference. He concluded his speech motivating his party's Reichstag members' affirmation of the Enabling Law by reminding them of their duty to "prevent the worst" from happening. He observed that Hitler's regime could achieve its designs "by other means," and that it were better, therefore, that it be done by this "legal" pathway.

Perhaps the most prominent other leader of the Catholic

Center Party was former Chancellor Heinrich Brüning.

Brüning believed that Hitler would be brought down, as he himself had been, by the economic turbulence of the Depression. Until that happened, it were best to “avoid the worst”—i.e., the *Notverordnung*, or Nazi seizure of absolute power “by other means”—by containing the Nazis through legislative measures. Then the legislative efforts of the Reichstag could be complemented by treaty agreements with other nations, that would supposedly serve to further hem in the Nazis.

After all, said Brüning, the Enabling Law included at least a minimum of important safeguards and restrictions against Hitler’s unbridled impulse for dictatorship. Among these safeguards, which non-Nazi opponents of Hitler had been allegedly able to extract from him were: 1) The Enabling Act empowered not Hitler personally, but rather the entire Cabinet, to address the emergency conditions confronting Germany. It stipulated furthermore, that the Act had the force of law, only as long as two-thirds of the Cabinet posts remained in non-Nazi hands; 2) it was subject to renewal or repeal, after four years; 3) it was prohibited from deviating from the Weimar Constitution, insofar as encroaching upon the independent existence of the Reichstag and the Federal states was concerned; and 4) it was to constitute no form of limitation on the independent powers of the President. Indeed, Hitler swore to operate within these “limitations,” as he addressed the Reichstag on March 23, 1933, the day the Enabling Law took force:

“The government will make use of these powers only insofar as they are essential for carrying out vitally necessary measures. Neither the existence of the Reichstag nor that of the Reichsrat [the upper house of Parliament] is menaced. The position and rights of the President remain unaltered. . . . The separate existence of the Federal states will not be done away with. The rights of the churches will not be diminished, and their relationship to the state will not be modified. The number of cases in which an internal necessity exists for having recourse to such a law is a limited one.”

With these “assurances” in hand, the Reichstag proceeded to enact this fateful legislation by a vote of 441-84. Only the Social Democrats voted against the bill.

## Descent Into Hell

The rapidity with which all of the institutions that Hitler had so piously pledged to protect, disappeared, was truly breathtaking. On April 7, he dissolved the separate powers of the historic Federal states, and absorbed them all as “administrative bodies” of the Reich. He appointed Reich “commissioners” to oversee the administration of these formerly proud and powerful entities. Under the constraints of the same Enabling Law, which Hitler had claimed would ensure that “the separate existence of the Federal states will not be done away with,” no one raised a voice of efficient opposition. As for the Reichstag itself, within less than four months, it had

become a one-party institution. On July 14, 1933, a law was decreed which declared:

“The National Socialist German Workers Party [Nazi] constitutes the only political party in Germany. Whoever undertakes to maintain the organizational structure of another political party or to form a new political party will be punished with penal servitude up to three years or with imprisonment of from six months to three years, if the deed is not subject to a greater penalty according to other regulations.”

What had happened to all of the other parties whose vote totals had amounted to 56% of the German electorate, on March 5?

The Communist Party, with its 4,848,058 votes, had been banned from participation in the Reichstag.

The Social Democratic Party (SPD), with its 7,181,629 votes, disappeared with nary a whimper. On May 10, Hermann Göring’s police seized the offices of the SPD and its newspaper. On May 19, hoping to curry renewed favor with Hitler, the SPD Reichstag faction voted unanimously in favor of Hitler’s foreign policy, and condemned those Social Democrats abroad, who dared to criticize the Führer. But their 11th-hour propitiatory efforts proved to be of no avail, as Hitler formally banned the SPD on June 22, on the grounds that it was “subversive and inimical to the state.”

The Nationalist Party, with its 3,136,760 votes, the much-vaunted coalition partner of the Nazis, “voluntarily” dissolved on June 29. On that date, Alfred Hugenberg, who had initially served as Hitler’s Minister of Economics and Agriculture, resigned. Eight days prior, police and brownshirts had seized the Nationalist Party offices throughout the country.

The Catholic Bavarian People’s Party, with its 1,075,100 votes, dissolved itself on July 4.

The Catholic Center Party, with its 4,424,900 votes, the party which Hitler had so assiduously courted less than four months earlier, the party which had been the bulwark of the Weimar Republic, quietly dissolved itself on July 5.

And so it was, that the majority of the non-Nazi Reichstag self-destructed, driven by its own wishful delusions, into a one-party rubber stamp for that Anglo-American-sponsored geopolitical madman otherwise known as Adolf Hitler.

## The Nazi Labor Front

The trade unions, with memberships totalling over 8 million workers, disappeared in an even more precipitous fashion. As was the case with the non-Nazi political parties, it was their own delusions that paved the way for their abrupt dissolution. The leadership, of course, had already badly discredited itself by failing to adopt either the Lautenbach or Woytinsky job creation/economic development plans.<sup>2</sup> They compounded that strategic error by attempting to appease

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2. See Hartmut Cramer, “Wilhelm Lautenbach’s Concept of Productive Credit Creation,” *EIR*, April 18, 2003; and Gabriele Liebig, “How the German Trade Unions Could Have Stopped Hitler,” *EIR*, April 11, 1997.

Hitler in early 1933. Or, to put it in a way that might be more understandable to Americans today, they tried to “go along to get along” with Hitler.

On March 17, the chairman of the Christian Union Federation declared that his membership would be confining its attention to local economic and social concerns, and that they would leave the making of state policy to “others.” The time had arrived for the advent of a truly professional (i.e., non-political) people and workforce, according to the chairman. On March 21, the board of the ADGB, which represented more than 80% of Germany’s unionized workers, expressed its readiness to abandon all of its political functions and interests, and limit itself to the realm of purely and simply social concerns, “no matter what type of national government is established.”<sup>3</sup> Eight days later, the board promised to effect a complete break with the SPD which had so infuriated Hitler with its vote against the Enabling Law, as well as to begin “wide-ranging cooperation” with German employers.

The same deluded board appealed in vain in early April to President Hindenburg, beseeching him to curb Hitler’s brutal and blatantly illegal conduct against various trade unions. Hindenburg, not surprisingly, did nothing. On April 4, Hitler’s regime enacted a “Law on Factory Representation and Economic Association.” This empowered any employer with the right to fire any employee on the grounds of “suspicion of activity inimical to the state,” at the same time that it excluded the employee from any right to appeal the employer’s action. Furthermore, the law stipulated that, “the highest state authorities, or another authority designated by said authorities, can order the termination of membership of such factory council members, who are engaged in economic or political activity that is contrary to the interests of the state. They can also select, from eligible personnel within the enterprise, the new factory council members.”

Thus, the Nazi authorities usurped for themselves virtually unlimited powers, to hire and fire within any particular firm. It was an ignoble day for the unions, who responded by grovelling all the more.

On April 10, Hitler had a law enacted, which declared May 1 to be “National Labor Day,” and as such, a paid holiday for all workers. The deluded and fearful trade union leadership circles were universally ecstatic about this “overture of respect and appreciation” toward German labor, in his sup-



*The Social Democratic Party and trade unions capitulate: “On May 1, 1933, as Hitler was singing the praises of German labor at a rally of over 1.5 million in Berlin, the Nazi police-state machinery was being set into motion for the annihilation of the trade unions the next day.”*

posed recognition of labor’s traditional May Day holiday. One trade union paper even declared the May 1 holiday to be “The Day of Victory.”

Meanwhile, Hitler’s Nazi thugs were working furiously and secretly to prepare for the abolition of the trade union movement on May 2! Their efforts were headed up by Robert Ley, who would become notorious in the early weeks of May, as the head of the new Nazi Labor Front, which was to supplant the old (outlawed) trade union organizations. On April 21, with admonitions of “strictest secrecy,” Ley sent out a letter to all of the relevant Nazi Party, SA, and SS functionaries, informing them that “on Tuesday morning, May 2, at 10:00, the *Gleichschaltung* [elimination of opposition] actions against the free trade unions will commence.” They were to be supervised by the local Nazi Party *gauleiters* (district leaders). All bank accounts and offices were to be seized, and all the specified union officials and branch managers of the trade unions’ banks were to be taken into “protective custody,” i.e., thrown into concentration camps.

So, on May 1, even as Hitler was singing the praises of German labor at a rally of over 1.5 million people in Berlin, the Nazi police-state machinery was being set into motion for the physical annihilation of the trade unions the next day. What is particularly notable about the mass arrests of trade union leaders, and Nazi Party-SA seizure of offices and bank accounts, is that there was not even the hint of a legal pretext cited to justify the action! That is, the trade unions were not accused of violating any particular laws, nor were they even repressed by the state, as such. It was the Nazi Party and its SA brownshirts, not state or local

3. Bracher, Karl Dietrich, “Die national-socialistische Machtgreifung” (Cologne: Westdeutscher Verlag, 1974), pp. 250-251.



*The churches capitulate: Hitler greets his friend and fellow Nazi, “Reich Bishop” Ludwig Müller, following his establishment of the “Reich Christian Church.”*

police, who conducted the arrests and confiscations!

Such were the depths that Germany had descended to, under Hitler’s Enabling Law. Virtually no one raised a voice in protest, as the criminal Robert Ley proudly proclaimed the birth of the Nazi Labor Front, dissolved all the trade unions, and absorbed their membership under his new umbrella.

### **Hitler vs. the Jews and the Churches**

Hitler enacted a law on April 1, proclaiming a boycott of Jewish shops. He also enacted laws excluding Jews from public service, the universities, and a variety of other professions. This was the beginning of the process of stripping the Jews of their citizenship—one of the first steps in the monstrous plan to dehumanize Germany’s Jews, that led, inexorably, to the Final Solution, and the murder of 6 million Jews.

Hitler was also anti-Christian. He launched an aborted campaign to establish a “German Christian” church. There were nearly 45 million Protestants in Germany, most of whom belonged to the Lutheran and Reformed Churches. Hitler wanted to establish a new “Reich Christian Church,” which would be headed by his friend and fellow Nazi, Ludwig Müller.

Hitler ultimately had to step back from his aggressive campaign to formally subordinate the Protestant Church to the Reich. But he was shrewd enough to recognize that the Protestants’ imagined victory against him in this realm, was itself a valuable form of delusion that he could exploit in other theaters. For example: Where were the Protestant voices of protest to be heard, after Hitler liquidated his opposition in an orgy of mass murder on June 30, 1934? Having secured a

nominal victory against Hitler’s “German Christians” in their narrowly defined sphere of interest, they did not see the need to address the larger, more fundamental, and more horrifying realities threatening Germany. But for the noble Dietrich Bonhöffer—a leading Protestant pastor, who attempted to rally people against Hitler, and was executed by the Nazis in 1945—and a handful of others, the silence was deafening, and strategic thinking in these quarters was altogether lacking.

### **The Blood Purge**

Capitalizing on a combination of the delusions of his enemies and the terror that was unleashed in the population by Ernst Röhm’s brutal SA legions, Hitler proceeded to further consolidate his one-party dictatorship in late 1933 and early 1934. Fifty concentration camps were established in the first year of his reign, where tens of thousands of “enemies of the state” were detained in “protective custody,”

without the benefit of trial or legal counsel. But even as he was strengthening his hold on the population-at-large, there were growing rumblings of unrest within his own party—within the SA, in particular. The ranks of Röhm’s SA were expanding, as membership rolls exceeded 2 million. Röhm and some of his associates began to speak of themselves as the “People’s Army,” and talked of changes that should be made in the doctrines of the Armed Forces, accordingly. Röhm submitted a memorandum to the Cabinet to this effect in February 1934. Many of Röhm’s colleagues were speaking of the need to conduct the “second phase” of the yet uncompleted Nazi revolution. Hitler responded by reaffirming the Reichswehr as the “sole bearer of arms” for Germany, and by flatly rejecting the idea of a “second revolution.” He otherwise praised Röhm’s conduct in lavish terms, and lauded the “important work” that had been accomplished domestically by the SA.

As tensions among Hitler, the Reichswehr, and the SA increased during the Spring, Hitler finally resolved on a course of action, deploying Göring’s special police and Heinrich Himmler’s SS thugs to “liquidate” Röhm and the entire leadership of the SA in the “Night of the Long Knives” (see box).

He claimed in a speech to the Reichstag on July 13, that Röhm and all the others were involved in an insurrectionary plot against Germany. As in the case of the Reichstag fire, Hitler never produced a scintilla of evidence. He defiantly declared to the deputies, “If anyone reproaches me and asks why I did not resort to the regular courts of justice, then all I can say is this: In this hour, I was responsible for the German



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*Enactment of the April 1, 1933 anti-Jewish laws: The sign reads, "Germans, defend yourselves. Do not buy from Jews." "This was the beginning of the process that led, inexorably, to the Final Solution."*

people, and thereby I became the supreme judge of the German people."

Von Schleicher was killed in this slaughter, his alleged crime that he had conspired with a foreign diplomat against Germany, Hitler said. Hitler's obedient Cabinet had already "legalized" the slaughter, when on July 3, they had endorsed Hitler's actions as necessary for the "defense of the state."

Out of all the senior officers of the Wehrmacht, only General Hammerstein-Equord, who had been Commander-in-Chief of the Army at the time of the Nazi seizure of power, raised a voice of strong condemnation against the murders of Generals Schleicher and von Bredow. He organized the retired Field Marshal von Mackenson to join him in his protest campaign. Their efforts were pitifully limited, and succeeded in merely prompting Hitler to admit, on the occasion of a secret meeting of military leaders and party officials on Jan. 3, 1935, that the murder of the two generals had been "in error," and that their names would be restored to the honor rolls of their regiments.

As for the population-at-large, they had been desperately seeking relief from the rampages of Röhm's brown-shirted thugs. Hitler, in one unspeakably bloody, lawless evening, had apparently provided them that relief. But this was a numb population, whose former standards of law and justice had become warped and twisted by the preceding 18 months of non-stop convulsion.

### The Final Consolidation

President Hindenburg died on Aug. 2, 1934, less than six weeks after Hitler's bloodbath. At noon, it was announced that Hitler's Cabinet had enacted a law the preceding day, which combined the offices of the President and Chancellor,

and that Adolf Hitler had assumed his new responsibilities as head of state and Commander-in-Chief of the Armed Forces. The title of President was abolished, and Hitler was to be referred to thereafter as "Führer and Reich Chancellor."

Also, all members of the Armed Forces were required to swear a new oath which stated: "I swear by God this sacred oath, that I will render unconditional obedience to Adolf Hitler, the Führer of the German Reich and people, Supreme Commander of the Armed Forces, and will be ready as a brave soldier to risk my life at any time for this oath." As they said later, some of the military command hated it—but they signed!

So it was, that on Aug. 19, 1934, the German people went to the polls in a plebiscite to "vote" on Hitler's new leadership

## Schmitt's Justification Of Hitler's Blood Purge

On the night of June 30, 1934—the "Night of the Long Knives"—Chancellor Adolf Hitler ordered the murders of many tens (perhaps hundreds) of his political opponents. Among them were Gen. Kurt von Schleicher, who had preceded Hitler as Chancellor; von Schleicher's wife; and Gen. Ferdinand von Bredow, von Schleicher's long-time aide-de-camp; as well as many leaders and associates of the SA Brownshirts of Ernst Röhm, including Röhm himself. The murders were perpetrated by death squads that were handpicked from the ranks of Herman Göring's Gestapo and Heinrich Himmler's SS.

The savagery with which they were carried out almost defies description. General von Schleicher and his wife answered a knock at their door, only to be shot dead on the spot. General von Bredow met a similar fate. Gustav von Kahr, the man who had successfully suppressed Hitler's Munich Beer Hall Putsch attempt in 1923, and who had long since retired from politics, was found in a swamp near Dachau, having been hacked to death with pickaxes.

Loyal associates were executed, because "they knew too much." Father Bernhard Stempfle, who had helped edit Hitler's book *Mein Kampf*, but who had spoken too loosely about the circumstances surrounding the suicide of Hitler's former girlfriend, Geli Raubal, was found in a forest near Munich with his neck broken and three gunshots through the heart. Karl Ernst, the SA man who was deployed by Göring to set fire to the Reichstag on Feb. 27, 1933, was dispatched to Berlin for execution. Three other members of his Reichstag arson team met the same fate.

responsibilities. Ninety-five percent of the registered voters went to the polls, and over 90% voted to affirm Hitler as the “Führer.” That is, over 38 million Germans voted to ratify Hitler as Führer, and approximately 4,250,000 voted against the Führer. Only 18 months earlier, Hitler had received fewer than 17,300,000 votes, in a multi-party election, in which over 38 million voters had participated. What a change! What a descent into Hell!

That descent was paved with the delusions of the Germans, not unlike the way America’s descent into Hell is being paved with delusions of a similar nature today. As Lyndon LaRouche recently stated about the nature of delusion: A person “is fooled, simply, because each such fool wishes to be deceived into any illusion, which, for even a mere moment,

‘makes him or her feel good’. . . . The most effective way in which magicians and others succeed in causing people to fool themselves, is to say to the intended victims: ‘Seeing is believing’. . . . Or, ‘All the eyewitnesses agreed.’ Or, ‘But he had such an honest face!’ So, direct the victim to what you wish them to focus upon, give them the sense-experience they wish to believe, and, often, they are easily fooled.”<sup>4</sup>

It is time that Americans stopped deluding themselves. It is time that we learned the lessons of history from the deluded German experience of 1933-34. It is time that Americans finally listened to LaRouche.

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4. LaRouche, Lyndon, “Once Again, They Have Fooled You,” *EIR*, June 21, 2002.

There was no hint of “legal justification” for this purge, before the fact. Hitler simply wanted to eliminate leading elements of his real, imagined, and potential opposition, so as to terrorize all others into submitting to his dictatorship. He commenced his efforts to veil his mass murder with a veneer of legality on July 3, when he submitted a draft law for the Emergency Defense of the State to his Cabinet, which stated simply, “The measures taken on 30 June and 1 and 2 July for the suppression of high treasonable and state treasonable attacks are, as emergency defense of the state, legal.” Minister of Justice Franz Gürtner declared that Hitler’s draft did not create new law, but merely confirmed pre-existing law. The Cabinet then unanimously adopted Hitler’s bill.

Ten days later, Hitler made a two-hour speech to the Reichstag (13 of whose members had been executed on June 30) and the nation, brazenly justifying his actions. “Mutinies are broken according to eternal, iron laws,” he said. “If I am reproached with not turning to the law courts for sentence, I can only say: In this hour I was responsible for the fate of the German nation, and thereby the supreme judge of the German people. . . . I gave the order to shoot those most guilty of this treason, and I gave the order to burn out, down to the raw flesh, the ulcers of our internal well-poisoning and the poisoning from abroad!”

It then fell to Carl Schmitt—the man who is the inspiration and “legal” godfather of the Federalist Society of Judge Samuel Alito—to present an elaborated legal justification of Hitler’s actions, in the August 1934 edition of the *Journal of German Lawyers*. Schmitt had already been providing legal cover for Hitler’s drive toward dictatorship during the prior 18 months. In an article entitled “The Leader Protects the Law,” Schmitt claimed that every murderous and criminal act ordered to be carried out during the bloodbath of June 30 and its aftermath, was both legal and courageous. Schmitt asserted that the Leader/Dictator,

acting in a time of crisis, by definition *both is and creates* the law. The action of the Dictator is not subordinate to justice; it is, itself, the “highest justice.” Furthermore, the greater the crisis, and the more “exceptional the action or deed of the Leader/Dictator, the greater the purity/essence of the law so created. . . .

“The Leader protects the law from the worst abuse, when he, at the moment of danger, by virtue of his leadership as the supreme judge, directly creates the law. ‘In this hour, I was responsible for the fate of the German nation, and as such [I became] the supreme judge of the German people. . . .’ [said Hitler to the Reichstag]. The true Leader is always also judge. From the realm of the Leader, flows the realm of the Law. . . . In reality, the act of the Leader was the true authority. The deed is not subordinate to justice; it is, in fact, the highest justice. It was not the action of a republican dictator, who, in a legal vacuum, while the law momentarily turns a blind eye, creates *faits accomplis*, and thereby, on the basis of such newly created facts, perpetuates the fiction of a seamless, continuing legality. The power of the Leader as judge springs from the same fount of law, from which spring the rights of the people. In times of the greatest emergency, the supreme law proves itself worthy, and only in such great crises, does there appear, to the highest degree, the juridical, vengeful realization of this law. All law is derived from the people’s right to existence. Every state law, every judgment of the courts, contains only so much justice, as it derives from this source. . . . The content and the scope of his action, is determined only by the Leader himself.”

Thus, in a continuing or permanent state of emergency, the Leader continuously creates “new law,” with each new “exceptional deed.” And, after Sept. 11, 2001, just like after Feb. 27, 1933, all such exceptional deeds are justified in the name of “defending the existence of the people.”

—Steve Douglas

## Democratic Forum Takes Up Apollo-Style Economic Program

by Rochelle Ascher

A standing-room-only crowd of more than 500 people, including many Congressmen who returned to Washington, D.C. early to attend, participated Jan. 19 in a follow-up forum on the “Innovation Agenda,” first presented by House Minority Leader Nancy Pelosi in a speech at Harvard University on Dec. 2. The forum, held in the Cannon Caucus Room, was titled “A Commitment to Competitiveness To Keep America Number 1,” and followed the much-publicized joint House-Senate Democratic event devoted to exposing Republican corruption.

In her invitation to the event, Pelosi had struck the key theme: “In answering John F. Kennedy’s bold call to put a man on the Moon, America unleashed unprecedented technological advances that built the world’s most vibrant economy. Through scientific discovery and innovation, America became number one in world economic competitiveness.” That is what the Democrats’ Innovation Agenda proposes to do once again.

Although the event was overshadowed by the raging political battle over the Alito nomination, the presentations on education, and research and development—the first two points of the five-point Innovation Agenda—showed the firm intention of the Democratic Congressional leadership to change course toward a real economic recovery.

### An Educated Workforce

The event began with Congressman George Miller of California, House Democratic Policy Committee Chair and ranking Democrat on the House Education and Workforce Committee, who gave a brief overview of the Innovation Agenda’s five goals.

Congressmen Bart Gordon of Tennessee moderated the

first panel, which was devoted to the first goal, that of “creating an educated, skilled workforce in the vital areas of science, math, engineering, and information technology.” Gordon described the three pieces of legislation he introduced immediately after Pelosi’s Dec. 3 speech. The three bills are:

- HR 4434: 10,000 Teachers, 10 Million Minds Science and Math Scholarship Act, introduced Dec. 6, 2005.
- HR 4435: Establishing the Advanced Research Projects Agency-Energy (ARPA-E), introduced Dec. 6, 2005.
- HR 4596: Sowing the Seeds Through Science and Engineering Research Act, introduced Dec. 16, 2005.

The bills were introduced after October hearings, and a report by the National Academy of Sciences, titled *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future*, which painted a grim picture of America’s ability to remain competitive without far-reaching new programs in education and research.

On Jan. 25, a bipartisan group of Senators, including Pete Domenici (R-N.M.), Jeff Bingaman (D-N.M.), Lamar Alexander (R-Tenn.), and Barbara Mikulski (D-Md.), held a press conference announcing the introduction of three companion Senate bills.

As Gordon’s bills elaborate, one major Democratic goal is to educate 100,000 new scientists, engineers, and mathematicians in the next four years by proposing a new initiative—in cooperation with states, businesses, and universities—to provide scholarships to qualified students who commit themselves to working in these fields. Another goal is to place a highly qualified teacher in every math and science K-12 classroom, by offering up-front tuition assistance to talented undergraduates, and by paying competitive salaries.



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THE INNOVATION AGENDA  
A COMMITMENT TO COMPETITIVENESS TO KEEP AMERICA #1

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*The Innovation Agenda is intended to foster today the kind of bold technological advances that JFK's Apollo program unleashed, stated House Minority Leader Nancy Pelosi (top left) in her invitation to the Jan. 19 meeting.*

*"Every American must think like a scientist," Rep. Rush Holt (bottom left) told the Jan. 19 meeting of the House Democrats' "Innovation Agenda," which discussed how to rejuvenate U.S. science and technology.*

Two other presentations followed Gordon's: one by Dr. Belle Wei, dean at San Jose State University in California, one of only 15 women deans of engineering schools in the country, who spoke on the disastrous deficit of U.S. science and engineering graduates; and one by Rep. Mike Honda (D-Calif.), who spoke on nanotechnology.

## Research and Development

The second topic on the first panel was devoted to the second Innovation Agenda goal, that of "investing in a sustained Federal research and development initiative that promotes public-private partnerships." Speaking were Dr. Neal Lane of Rice University, and Rep. Rush Holt (D-N.J.), a physicist who had worked at the Princeton Plasma Physics Laboratory.

Holt's comments were the highlight of this meeting. He described science and innovation as "quintessentially American," citing the founding fathers and "Yankee ingenuity." For the first time, he said, our standard of living may be falling, and children today are living off investments from 30-40 years ago. He said we have to have a commitment in our gut to basic scientific research. "Every American should think like a scientist—that we have to think about how things work and how to make them better—that we have to have a revolution in how we think about things," Holt emphasized. He cited the commitment of Representatives Pelosi and Miller to holding

town meetings on the Innovation Agenda, noting his own town hall meetings with union leaders, businessmen, and elected officials, and he stressed that this commitment to invention and innovation is what is uniquely American.

The first panel concluded with a discussion of providing affordable broadband technology to all Americans, the third goal in the Innovation Agenda.

Then the second panel took up the questions of energy independence (unfortunately without mentioning the crucial energy source required: nuclear) and promoting opportunities for small business, the final two points of the Agenda. Although Rep. Jay Inslee (D-Wash.), who gave the Democratic message on the question of energy, led off his discussion of achieving energy independence by calling for a new Apollo project, and the revival of an "unlimited spirit of

innovation" like that of President Kennedy, the discussion went downhill from there. The panel on small business got stuck in the proposal to provide stock options to employees, rather than on tax credits and health care as crucial economic aids to small, high-technology firms.

## The Path Forward

The commitment by Democrats to reversing and replacing the 40-year-long paradigm of anti-science, anti-technology, privatization, and so on, with a return to the "JFK Apollo model" represents an absolutely crucial shift in outlook, but two key elements uniquely supplied by Lyndon LaRouche are necessary. The first is that a successful economy requires a 50% expenditure devoted to infrastructure, which is only possible with an advanced machine-tool capability. The second is LaRouche's answer to the most frequently asked question, "But how do we pay for this?" which is in his most recent paper, "Deficits As Capital Gains: How To Capitalize a Recovery" (see *EIR*, Jan. 27, 2006).

In her concluding remarks, Pelosi noted the Democrats' desire to hold town meetings on the agenda, and mentioned that two members of Congress have already asked the leadership to host such meetings in their districts. Such a discussion among the population is indispensable to the success of this turn toward economic sanity.

# Capital Budgeting for Economic Growth: Eisenhower's National Defense Highway Act

by Richard Freeman

Any comparison of the physical conditions of life and economy in the U.S.A. during the recent four decades, with the rate of improvement of physical standard of living and productivity during the first two post-war decades, demonstrates that the post-1968 change to a 'services economy,' has been, consistently, a disaster for our nation's physical economy, the source of the ruin of our nation's credit, and the cause for the collapse of the conditions of life of the lower eighty-percentile of our family-household income-brackets. . . .

What is a competent approach to establishing and maintaining a U.S. Federal Capital Budget—as distinct from a slop-jar package which lumps short-term and long-term balances together indifferently, in a single silly lump, as a common budget?

—Lyndon LaRouche, "Deficits As Capital Gains: How To Capitalize a Recovery"

In the Jan. 27, 2006 edition of *EIR*, Lyndon LaRouche delivered a clarion call for a return to sanity on the part of Washington, D.C. policymakers in both the Congress and the Executive branch. In a feature essay, "Deficits As Capital Gains: How To Capitalize a Recovery," LaRouche called for the establishment of a separate Federal Capital Budget, distinct from the annual budget of Federal operating costs, to launch a massive infrastructure recovery program, vital to reversing the nation's now near-fatal slip into a post-industrial horror show. Such a Federal Capital Budget, properly conceived, LaRouche wrote, would more than pay for itself through infrastructure improvements, productive job expansion, and expanded physical economic growth. Therefore, it should not be considered part of the government's operating costs, but, rather, a source of wealth-creation.

LaRouche's proposal represented an immediate solution to a problem perplexing those lawmakers today, who recoil in horror at the idea of adding to the nation's out-of-control Federal deficit, but who recognize that the nation's infrastructure is in an advanced state of collapse, and that only the Federal government can reverse that collapse through massive investment.

Such thinking today is considered radical, even revolutionary. But prior to the devastating cultural paradigm shift of the 1966-71 period, such American-System thinking was not so rare. And the idea of a separate Federal Capital Budget,

to fund generational and multi-generational great projects, was used on a number of occasions, and always achieved remarkable results.

One such instance was President Dwight Eisenhower's mid-1950s National Defense Highway Act, which created a modern national highway grid, vital to both commerce and the national defense. Although the intent of the Act would be subverted over time, to virtually shut down the nation's critical rail grid, and herald an era of internal migration to cultural wastelands called "the suburbs," the essence of Eisenhower's intent and the success of the Act cannot be diminished.

## National Interstate and Defense Highways Act

Known officially as the National Interstate and Defense Highways Act of 1956 (PL 627), the bill was signed into law on June 29, 1956 by President Eisenhower. The Act called for the U.S. government, and state and local governments combined, to spend \$101 billion over 10 to 13 fiscal years, starting fiscal 1956 (the U.S. government would spend the lion's share of the funds). The breakdown: 1) the U.S. and state governments would spend \$25 billion to construct a National Interstate Highway System which would extend 40,000 miles (ultimately, extended to 42,500 miles). This core system would be built sturdily, carry traffic at high speeds; 2) the same governments would spend \$76 billion to construct and repair "primary roads, secondary roads, and other roads," which constituted the other portion of America's 3.37 million miles of roads.

The Act was envisaged as a 20-year capital improvement project, and therefore, its funds were to be segregated from the U.S. government budget's general funds. In conceptualizing the proposal, Eisenhower had appointed a National Advisory Committee on a National Highway Program in 1954, headed by his close associate, Gen. Lucius Clay. In February, 1955, Clay released the committee's report, *A 10-Year National Highway Program*. According to one historian, "To finance the *Interstate* program, the committee proposed creation of a federal corporation which would issue \$20 billion of long-term bonds to be repaid over the 32-year period, 1956-87, from the existing two-cent federal motor fuel tax." The bonds would have an interest rate of 3%. Thus, Eisenhower and Clay planned to issue 30-year bonds, at 3% interest, for a long-term capital improvement project, separated out from the U.S. operating budget.



DOT Federal Highway Administration

*The Clay Committee presents its report of recommendations to President Eisenhower, for financing a national interstate highway network, on Jan. 11, 1955. Gen. Lucius Clay is standing at far left.*

The bonding proposal was defeated in the House of Representatives in 1955.

To make sure the process went forward, Eisenhower changed the funding formula for the Interstate Highway program: Previously funding was split evenly between the Federal government and the states; now the Federal government assumed 90% of the cost.

## Eisenhower and FDR

The 1916 Federal-Aid Road Act was the first major legislation to establish the idea of a cooperative Federal-state highway program, and provide Federal funding assistance for highway construction, though on a limited scale. The first section of road completed under the Act was a 2.6-mile project in Contra Costa County, Calif.

In 1938, President Franklin Roosevelt signed into law the Federal-Aid Highway Act, which led to the publication of a research report, the second part of which was entitled "A Master Plan for Free Highway Development." This presented the outline for construction of a 25,800-mile non-toll inter-regional highway network, anchored by three East-West superhighways, and three North-South superhighways.

During the period 1920-1940, there were great advances in the construction and soundness of highways: in the determination for highways of materials and soil parameters for designing pavements; studies of the geometries of radii of curvature of highways and longitudinal gradients; work on drainage and other structures; the construction of bridges, etc. Important work went on that clearly showed that the pavement struc-

ture should be designed in relation to the expected truck axle loads, as axle loads increased from 2,500 to 13,000 pounds.

In 1944, the Federal Aid Highway Act greatly expanded the highway program. Section 7 of the Act specifically authorized designation of a 39,000 mile "National System of interstate Highways . . . so located as to connect by routes, as direct as practicable, the principal metropolitan areas, cities and industrial centers, to serve the national defense, and to connect at suitable border points with routes of continental importance in the Dominion of Canada and the Republic of Mexico."

Eisenhower employed these explicit words, defining the Interstate system, in his 1956 Act. The 1944 Act authorized a \$1.5 billion apportionment for a three-year period beginning at the termination of the war emergency.

During the war, all non-critical highway work was deferred, to save on materials and labor. Accordingly, many miles of highway had grown worn and

obsolete. At World War II's conclusion, drawing down funds appropriated from Roosevelt's 1944 Federal Aid Highway Act, states began construction work on the National Interstate Highway System. When Eisenhower took office in January 1953, the states had completed improvements of 6,196 miles of the highways designated to be part of the Interstate Highway system.

## President Eisenhower's Approach

Eisenhower keenly came to see the need for a national efficient highway system as a result of two experiences in his life: his 1919 transcontinental trip across the United States, and his experience with the German Autobahn system during World War II.

As an historian reported, Eisenhower's "first realization of the value of good highways occurred in 1919, when he participated in the U.S. Army's first transcontinental motor convoy from Washington, D.C. to San Francisco. When Eisenhower and a friend heard about the convoy, they volunteered to go along as observers, 'partly for a lark and partly to learn,' he later recalled. On the way west, the convoy experienced all the woes known to motorists and then some—an endless series of mechanical difficulties; vehicles stuck in mud or sand; trucks and other equipment crashing through wooden bridges; roads as slippery as ice, or dusty, or with the consistency of 'gumbo'; extremes of weather from desert heat to Rocky Mountain freezing.

"On Sept. 5, 1919, after 62 days, the convoy reached San Francisco."



FDR Library

*President Franklin D. Roosevelt signed into law the Federal-Aid Highway Act in 1938, which laid the basis for the work that was done later.*

As for a German-style Autobahn system, the historian recounted, “During World War II, Gen. Eisenhower saw the advantages of the Autobahn network. He also noted the enhanced mobility of the Allies when they fought their way into Germany.

“These experiences shaped Eisenhower’s views on highways. ‘The old [1919] convoy,’ he said, ‘had started me thinking about good, two-lane highways, but Germany had made me see the wisdom of the broader ribbons across the land.’” In another location, Eisenhower asserted, “I had seen the superlative system of the German Autobahnen, and recognized that the United States was behind in highway construction. In the middle of the 1900s, I did not want us to fall still further behind.”

Eisenhower was elected President in November 1952; during 1953, he concentrated on ending the Korean War. In 1954, he made highways a matter of emphasis.

Eisenhower prepared draft notes to unveil his program to the Governors’ Conference, which was being held July 12, 1954, in Lake George, N.Y. A death in his family prevented Eisenhower from attending the conference, so he had Vice President Richard Nixon deliver his address. Eisenhower did not trust Nixon to speak extemporaneously, so he gave Nixon his detailed notes. Nixon told the conference, “The President had a message that he particularly wanted to deliver to the Conference. He was good enough to give me the notes that he had made for delivery of that message. . . . Having seen these notes . . . I can tell you the President follows the rule that the best informal speech is the one that is very well prepared.”

The Eisenhower notes said: “We don’t want a blueprint for a regimented economy, but we must have vision, comprehensive plans, and cooperation between the States and Federal government.

“First, on the bright side, we live in a dramatic age of technical revolution through atomic power, and we should

recognize the fact that the pace is far faster than the simpler revolutions of the past. It was a very long generation from the Watts steam engine to a practical locomotive. It was less than nine years from the atomic bomb to the launching of an atomic-powered submarine. We have seen a revolutionary increase in opportunity, comfort, leisure, and productivity of the individual.”

Eisenhower said that there was also a dark side. “On the dark side, as we look into the future we see a shortage of 300,000 classrooms in the grade schools of the country, a shortage of 813,000 hospital beds, an annual increase of 250,000 disabled who require vocational rehabilitation.”

Eisenhower observed that in 1870, the population of the United States was 38.5 million people, that in his time, it was 165 million, and that by 1980, it was estimated the population would reach 200 million people. The population would require a 10-year \$50 billion highway program. He said the “highway net of the United States. . . is obsolete.” He added, “it has never been completely overhauled or planned to satisfy the needs 10 years ahead.” He stated, “A \$50 billion highway program is a goal toward which we can—and we should—look.” (At times, Eisenhower referred to the program as a \$50 billion program, at other times a \$101 billion program).

Nixon then put forth Eisenhower’s view: “The President believes that the requirements are these: a grand plan for a properly articulated system that solves the problems of speedy, safe, transcontinental travel—intercity communication—access highways—and farm-to-market movement—metropolitan area congestion—bottlenecks—and parking.”

Continuing with Eisenhower’s view, Nixon stated that “the fourth, very probably, [would be] a program initiated by the Federal government, with State cooperation, for the planning and construction of a modern State highway system, with the Federal government functions, for example, being to advance funds or guarantee the obligations of localities or States which undertake to construct new, or modernize existing highways.”

Eisenhower’s speech created a tremendous stir among the Governors. For years, the Governors Conference had been on the record publicly calling for the abolition of the two-cent per gallon gasoline tax collected on a *Federal level*, so that the states, in turn, could collect this two-cent per gallon tax. The states would implement highway construction on a state-by-state basis, eliminating the role of the Federal government. Eisenhower’s proposal called for the states to question their tendency to think in terms of “states rights,” on a major scale.

### **Eisenhower Turns to Lucius Clay**

In August 1954, following his speech to the Governor’s Conference, Eisenhower asked his close associate Gen. Lucius Clay to study and come up with a concrete plan for a National Interstate Highway System.

Eisenhower set into motion three groups that would study

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## Routes To Be Added To The National System of Interstate and Defense Highways

(Oct. 17, 1957)



[www.fhwa.dot.gov](http://www.fhwa.dot.gov)

the Interstate Highway system: 1) The Governor's Conference Special Highway Committee, headed by Wisconsin Gov. Walter Kohler, Jr.; 2) A U.S. government executive branch "Interagency Committee" (that included the Departments of Treasury, Commerce, Budget); and 3) The National Advisory Committee on a National Highway Program, headed by Clay. (Clay appointed the other four members of the five-member Committee: Steven Bechtel of Bechtel Corporation; Bill Roberts, head of Allis-Chalmers; Dave Beck, President of the International Brotherhood of Teamsters; and Sloan Colt, the President of Bankers Trust).

Lucius Clay was born in 1897 in Georgia. He graduated from West Point in 1915, and became an officer of the U.S. Army Corps of Engineers, where he served his entire military career. In the period 1933-37, he was the number three of the Army Corps of Engineers in Washington, D.C. and worked with the Congress to develop many projects. He collaborated with Harry Hopkins, and placed critical Army Corps engineers into top positions in Hopkins' public works agencies. This Clay-Hopkins collaboration was crucial in running the economic mobilization for World War II (Clay was Director of Materiel for the Chiefs of Staff, i.e., military director of economic mobilization).

In 1937, when Clay went to the Philippines to work with Gen. Douglas MacArthur, Clay became close friends with Dwight Eisenhower, who was MacArthur's Chief of Staff. Eisenhower always highly respected Clay's engineering competence and overall judgment.

Moreover, according to an historical account, Clay was

the key person who persuaded Eisenhower to run for President in 1952, and directed Eisenhower's campaign.

Clay indicated in an interview in his biography, that Eisenhower also had, within the Interstate Highway system, the idea of fostering public works jobs. Clay stated, "[Eisenhower's assistant] Sherman Adams called me down [to Washington]. This was in August 1954. We had lunch with the President, and they were concerned about the economy. We were facing a possible recession, and [Eisenhower] wanted to have something on the books that would enable us to move quickly if we had to go into public works. He felt that a highway program was very important. So he asked me if I would head a

committee to make a study to recommend what should be done. That was the genesis of the President's Advisory Committee on a National Highway Program."

Clay presented three reasons why the U.S. needed the Interstate Highway system. "It was very evident that we needed better highways. We needed them for safety, to accommodate more automobiles. We needed them for defense purposes, if that should ever be necessary. Not only for moving troops and supplies, but for the evacuation of population centers in case of possible attack. And we needed them for the economy. Not just as a public works measure, but for future growth." These are the reasons that Eisenhower also gave, and they are presented in most of the public reports and messages to Congress on the Interstate Highway system.

Engineer Clay tackled two problems: the physical parameters of the Interstate Highway system, and the financial parameters. The Bureau of Public Roads (BPR)—now called the Federal Highway Administration—had calculated that the construction cost of the National Interstate Highway System would be \$25 billion, and the construction cost of the non-Interstate highway and road system would be \$76 billion, yielding a combined total of \$101 billion. The system of non-Interstate Highway roads and highways would facilitate and add to the operations of the Interstate Highway system, and that is why it was included in the overall proposal.

It had been determined that normal highway appropriations by the Congress, should they continue on the existing trend, would produce \$47 billion in highway appropriations over the ensuing 10 years. This meant that there was a gap of

\$54 billion left (the remainder of the \$101 billion) of the Interstate Highway system et al., that still had to be financed. The pressing question was, how was this amount to be financed?

Clay and others grappled with this question. A solution that some raised, which Eisenhower also favored, was to have toll roads as a substantial part of the National Interstate Highway System. They would raise money, and that could go to paying for the additional \$54 billion cost of construction. Clay saw that as self-defeating. He said that any plan to use Federal money to construct toll roads would be “whipped before it got started.” And charging tolls on previously free roads would lead to a “revolution” in the West.

A second option proposed, was to consider the raising of general taxes, but the direction of the Eisenhower Administration would not accept any significant tax increase.

An additional option proposed was that instead of raising taxes in general, there should be an immediate increase in the specific highway user taxes, such as the two-cent per gallon gasoline tax, and like taxes on lubricants, etc., that were partially pledged for highway construction. There was objection to that.

Clay was therefore considering how the Federal government would pay for a project that would take a decade or two, to build. Clay’s solution was to issue long-term bonds.

In February 1955, Clay’s National Advisory Committee on a National Highway Program issued its final report, entitled *A Ten-Year National Highway Program*. In it, Clay and his committee outlined their financing plan for the additional \$54 billion capital budget that would be needed.

One possibility would be to have the U.S. government itself issue long-term bonds, but that would increase the official U.S. government debt, which several interests opposed.

One summary of the Clay Committee report (“General Lucius Clay: The President’s Man” by Richard Weingroff), reported:

“To finance the Federal share of the Interstate System, the Clay Committee recommended creation of a Federal Highway Corporation as an independent agency of the Federal Government to finance work ‘through capitalization of appropriated funds in accordance with accepted financial principles.’ The corporation would have four purposes:

“1. Make payments to the States for construction of the Interstate system and approved arterial connecting routes or for projects undertaken by the Federal Government in the Federal domain;

“2. Establish a credit to any State that uses State funds, or funds under State control, to build interstate segments, toll or non-toll, in designated corridors between 1955 and 1964;

“3. Finance administration, research, planning, and other purposes authorized by Congress; and

“4. Create a revolving fund to finance improvements pending receipt of payments.

“For these purposes, the Corporation would issue bonds in an amount sufficient to complete the Interstate System during a construction period of 10 years. The Corporation, with the approval of the Secretary of the Treasury, would determine maturity schedules, interest rates, and other conditions. The bonds would be secured by a contract between the Corporation and the Treasury Department to ensure the Corporation ‘will receive a certain specified amount annually as authorized by the Congress, always sufficient to meet its obligations.’ ”

Jean Edward Smith, in his biography of Clay, *Lucius D. Clay: An American Life*, stressed, “Clay initially recommended that the program be initially financed with a \$20 billion bond issue at 3% interest.”

Thus, Clay chose to set up an entity separate from the General Revenue Budget of the U.S. government, to be the instrument that would finance \$54 billion for the Interstate Highway system.

The bonds of the Corporation that would be issued, would be paid off from an earmarked fund—some or all of the two-cent per gallon gasoline tax, and any other specific user-related taxes that would be levied.

On Feb. 22, 1955, President Eisenhower delivered a message to the Congress. He stated, “Our unity as a nation is sustained by free communication of thought and transportation of people and goods. The ceaseless flow of information throughout the Republic is matched by individual and commercial movement over a vast system of inter-connected highways criss-crossing the Country and joining at our national borders with friendly neighbors to the north and south.

“Together, the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts.

“The nation’s highway system is a gigantic enterprise, one of our largest items of *capital investment* [emphasis added]. . . .

“Of all these, the Interstate System must be given top priority in construction planning. But at the current rate of development, the Interstate network would not reach even a reasonable level of extent and efficiency in half a century. State highway departments cannot effectively meet the need. Adequate right-of-way to assure control of access; grade separation structures; relocation and realignment of present highways; all these, done on the necessary scale within an integrated system, exceed their collective capacity.” (See *Documentation* for the full speech.)

### **A Buzz-Saw**

The report was greeted with an hysterical reaction from some financial press. The banker-run *Wall Street Journal*, in an editorial, referred to “hocus-pocus bookkeeping,” stating

that this “bit of shenanigans” would be “a plain piece of pretense that a debt isn’t a debt.” The editorial objected to the increased Federal role; after all, “the roads we now have were built by the cities, counties, and states with but the smallest participation of the Federal Government.” Building future highways was, certainly, “a stupendous job,” but the *Journal* objected that claiming the need could be met only by “Federal planning and Federal taxes is to deny both our tradition of local government and the history of its success.”

The Scripps-Howard newspapers included an editorial that called the proposal “the gold-brick scheme devised by the committee which would hike the Federal debt without acknowledging it.” An editorial cartoon depicted a talking “\$101 Billion Road Program” carrying a hod of gold bricks labeled “Juggled Bookkeeping,” and saying “it won’t be a debt—we’ll just owe it.”

Some newspapers gave support to Clay.

In the Senate, some opponents to the plan were fierce, focussing on two points: that the bonds would cost \$11 to \$12 billion in interest over the life of the bonds, and that this was new debt.

Sen. Harry Flood Byrd (D-Va.), a fiscal conservative, and chairman of the Senate Finance Committee, said the plan was “thoroughly unsound” and an attempt “to defy budgetary control and evade Federal debt law.” He stated, “If the government can borrow money in this fashion, without regarding it as debt and without budgetary controls, it may be expected that similar proposals will be made for financing endless outlays.”

Sen. Albert Gore, Sr. (D-Tenn.) said, “it’s a screwy plan, that could lead the country into inflationary ruin.” When the Democrats won control of the Senate in the 1954 elections, Gore became chairman of the Subcommittee on Roads of the Senate Public Works Committee.

The counterparts of Byrd in the House of Representatives, many of them Democrats, were vocal against the plan.

In 1955, the measure was defeated by a wide margin in the House, but passed in the Senate.

## The Compromise

The subsequent legislation worked out by the Congress set up a Highway Trust Fund. It would gather revenues from the two-cent per gallon gasoline tax. Prior to 1956, this tax had gone into the General Revenue stream of the government (half of it had been spent for highways, half of it had been spent for the general budget). Now, the full two-cent gasoline tax would be committed to the Highway Trust Fund. In 1960, the gasoline tax was raised to four cents per gallon. There either existed or soon rose up other user-fee taxes: a tax per pound on motor vehicle tires, and on inner tubes; a tax on the manufacturer’s sale price on new trucks, buses, and trailers; a tax on heavy vehicles over 26,000 pounds, and so on. These revenues also went into the Highway Trust Fund.

The revised National Interstate Highway Act passed the Congress and was signed into law in 1956. It contained within it, Title II, which was called the Highway Revenue Act of 1956. It set up the Highway Trust Fund.

The Eisenhower-Clay initiative did break down the states’ fragmented approach to highway building, setting an integrated national policy and a single large expense. It introduced the idea of a Capital Budget. Today, following the compromise, the Highway Trust Fund still does segregate its funds from the general revenue budget, but the ambitious 1956 initiative of a 13-year capital budget to construct the Interstate Highway System is largely a matter of the past; it focusses on highway planning of two-to-five-year plans.

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## Documentation

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### President Eisenhower: Build America’s Roads

*On Feb. 22, 1955, President Dwight Eisenhower delivered this message to the Congress.*

Our unity as a nation is sustained by free communication of thought and transportation of people and goods. The ceaseless flow of information throughout the Republic is matched by individual and commercial movement over a vast system of inter-connected highways criss-crossing the Country and joining at our national borders with friendly neighbors to the north and south.

Together, the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts.

The Nation’s highway system is a gigantic enterprise, one of our largest items of capital investment. Generations have gone into its building. Three million, three hundred and sixty-six thousand miles of road, travelled by 58 million motor vehicles, comprise it. The replacement cost of its drainage and bridge and tunnel works is incalculable. One in every seven Americans gains his livelihood and supports his family out of it. But, in large part, the network is inadequate for the Nation’s growing needs.

In recognition of this, the Governors in July of last year at my request began a study of both the problem and the methods by which the Federal Government might assist the States. I appointed in September, the President’s Advisory Committee on a National Highway Program, headed by Lucius D. Clay, to work with the Governors and to propose a plan

of action for submission to the Congress. At the same time, a committee representing departments and agencies of the national government was organized to conduct studies coordinated with the other two groups.

All three were confronted with inescapable evidence that action, comprehensive and quick and forward-looking, is needed.

First: Each year, more than 36 thousand people are killed and more than a million injured on the highways. To the home where the tragic aftermath of an accident on an unsafe road is a gap in the family circle, the monetary worth of preventing that death cannot be reckoned. But reliable estimates place the measurable economic cost of the highway accident toll to the Nation at more than \$4.3 billion a year.

Second: The physical condition of the present road net increases the cost of vehicle operation, according to many estimates, by as much as one cent per mile of vehicle travel. At the present rate of travel, this totals more than \$5 billion a year. The cost is not borne by the individual vehicle operator alone. It pyramids into higher expense of doing the Nation's business. Increased highway transportation costs, passed on through each step in the distribution of goods, are paid ultimately by the individual consumer.

Third: In case of an atomic attack on our key cities, the road net must permit quick evacuation of target areas, mobilization of defense forces and maintenance of every essential economic function. But the present system in critical areas would be the breeder of a deadly congestion within hours of an attack.

Fourth: Our Gross National Product, about \$357 billion in 1954, is estimated to reach over \$500 billion in 1965 when our population will exceed 180 million, and according to other estimates, will travel in 81 million vehicles, 814 vehicle-miles that year. Unless the present rate of highway improvement and development is increased, existing traffic jams only faintly foreshadow those of ten years hence.

To correct these deficiencies is an obligation of Government at every level. The highway system is a public enterprise. As the owner and operator, the various levels of Government have a responsibility for management that promotes the economy of the Nation and properly serves the individual user. In the case of the Federal Government, moreover, expenditures on a highway program are a return to the highway user of the taxes which he pays in connection with his use of the highways.

Congress has recognized the national interest in the principal roads by authorizing two Federal-aid systems, selected cooperatively by the States, local units and the Bureau of Public Roads.

The Federal-aid primary system as of July 1, 1954, consisted of 234,407 miles, connecting all the principal cities, county seats, ports, manufacturing areas, and other traffic-generating centers.

In 1944 the Congress approved the Federal-aid secondary



Nuclear Energy Institute

*President Eisenhower properly viewed the nation's highway system as "a gigantic enterprise, one of our largest items of capital investment." Here he launches the start of the nation's first commercial nuclear plant in Shippingport, Penn.—another indication of his concern with the nation's infrastructure.*

system, which on July 1, 1954, totalled 482,972 miles, referred to as farm-to-market roads—important feeders linking farms, factories, distribution outlets, and smaller communities with the primary system.

Because some sections of the primary system, from the viewpoint of national interest are more important than others, the Congress in 1944 authorized the selection of a special network, not to exceed 40,000 miles in length, which would connect by routes, as direct as practicable, the principal metropolitan areas, cities and industrial centers, serve the national defense, and connect with routes of continental importance in the Dominion of Canada and the Republic of Mexico.

This National System of Interstate Highways, although it embraces only 1.2% of total road mileage, joins 42 State capital cities and 90% of all cities over 50,000 population. It carries more than a seventh of all traffic, a fifth of the rural traffic, serves 65% of the urban and 45% of the rural population. Approximately 37,600 miles have been designated to date. This system and its mileage are presently included within the Federal-aid primary system.

In addition to these systems, the Federal government has the principal, and in many cases, the sole, responsibility for roads that cross or provide access to Federally owned land—more than one-fifth of the Nation's area.

Of all these, the Interstate System must be given top priority in construction planning. But at the current rate of development, the Interstate network would not reach even a reasonable level of extent and efficiency in half a century. State highway departments cannot effectively meet the need. Adequate right-of-way to assure control of access; grade separation structures; relocation and realignment of present highways; all these, done on the necessary scale within an integrated system, exceed their collective capacity.

If we have a congested and unsafe and inadequate system, how then can we improve it so that ten years from now it will be fitted to the Nation's requirements?

A realistic answer must be based on a study of all phases of highway financing, including a study of the costs of completing the several systems of highways, made by the Bureau of Public Roads in cooperation with the State highway departments and local units of government. This study, made at the direction of the 83rd Congress in the 1954 Federal-aid Highway Act, is the most comprehensive of its kind ever undertaken.

Its estimates of need show that a 10-year construction program to modernize all our roads and streets will require expenditure of \$101 billion by all levels of Government.

The preliminary 10-year totals of needs by road systems are:

	Billions
Interstate (urban \$11, rural \$12 billion)	\$23
Federal-aid Primary (urban \$10, rural \$20 billion)	\$30
Federal-aid Secondary (entirely rural)	\$15
Sub-total of Federal-aid Systems (urban \$21, rural \$47 billion)	\$68
Other roads and streets (urban \$16, rural \$17 billion)	\$33
<b>Total of Needs</b> (urban \$37, rural \$64 billion)	<b>\$101</b>

The Governors' Conference and the President's Advisory Committee are agreed that the Federal share of the needed construction program should be about 30 percent of the total, leaving to State and local units responsibility to finance the remainder.

The obvious responsibility to be accepted by the Federal government, in addition to the existing Federal interest in our 3,366,000-mile network of highways, is the development of the Interstate System with its most essential urban arterial connections.

In its report, the Advisory Committee recommends:

1. That the Federal government assume principal responsibility for the cost of a modern Interstate Network to be completed by 1964 to include the most essential urban arterial

connections; at an annual average cost of \$2.5 billion for the ten year period.

2. That Federal contributions to primary and secondary road systems, now at a rate authorized by the 1954 Act of approximately \$525 million annually, be continued.

3. That Federal funds for that portion of the Federal-aid systems in urban areas not on the Interstate System, now approximately \$75 million annually, be continued.

4. That Federal funds for Forest Highways be continued at the present \$22.5 million per year rate.

Under these proposals, the total Federal expenditures through the ten year period would be:

	Billions
Interstate System	\$25,000
Federal-aid Primary and Secondary	\$5,250
Federal-aid Urban	\$.750
Forest Highways	\$.225
<b>Total</b>	<b>\$31,225</b>

The extension of necessary highways in the Territories and highway maintenance and improvement in National Parks, on Indian lands and on other public lands of the United States will continue to be treated in the budget for these particular subjects.

A sound Federal highway program, I believe, can and should stand on its own feet, with highway users providing the total dollars necessary for improvement and new construction. Financing of interstate and Federal-aid systems should be based on the planned use of increasing revenues from present gas and diesel oil taxes, augmented in limited instances with tolls.

I am inclined to the view that it is sounder to finance this program by special bond issues, to be paid off by the above-mentioned revenues which will be collected during the useful life of the roads and pledged to this purpose, rather than by an increase in general revenue obligations.

At this time, I am forwarding for use by the Congress in its deliberations the Report to the President made by the President's Advisory Committee on a National Highway Program. This study of the entire highway traffic problem and presentation of a detailed solution for its remedy is an analytical review of the major elements in a most complex situation. In addition, the Congress will have available the study made by the Bureau of Public Roads at the direction of the 83rd Congress.

These two documents together constitute a most exhaustive examination of the National highway system, its problems, and their remedies. Inescapably, the vastness of the highway enterprise fosters varieties of proposals which must be resolved into a national highway pattern. The two reports, however, should generate recognition of the urgency that presses upon us; approval of a general program that will give us a modern safe highway system; realization of the rewards for prompt and comprehensive action. They provide a solid foundation for a sound program.

## FORD LAYOFFS REQUIRE LAROCHE POLICY

# U.S. Auto Capacity Is 'Excess' Until Congress Acts on Retooling

Two months after its chairman William Ford, III spoke in Washington on the need for an industrial revival in the United States, and diversification in the auto industry, Ford Motor Company announced on Jan. 23 that, effectively, one-quarter of its already-reduced North American industrial capacity is "excess." Some 30,000 hourly production workers' jobs are to be lost, and several U.S. communities devastated, as a result.

Without Congressional intervention to give credit and a new mission—economic infrastructure-building—to the U.S. auto industry—"retooling" auto as Lyndon LaRouche has proposed for the past year—Ford's action appeared inevitable. So far, despite many discussions of retooling policy and the formation of a manufacturing caucus in the Senate and an "auto caucus," Congress has not acted. Meanwhile, for five of the past six months North American auto sales have fallen from year-earlier levels, reducing U.S. GDP by a full percentage point in the fourth quarter of 2005. Again through January's first half, auto sales were down 11% overall from January 2005, which in turn was down from 2004. Ford's sales were down 25% from a year earlier; GM's, down 28%; and Chrysler's, down 13%.

Ford Motor Company's Jan. 23 announcement was of what one of its board members had earlier called its "mega-plan" of closures and layoffs; i.e., the maximum and most extreme shutdown under consideration. Fourteen North American plants are to close, including seven assembly plants, cutting Ford's North American auto capacity by 1.2 million units annually; and causing layoffs of 30,000 production workers, or one-third of Ford's remaining, shrunken North American productive workforce. Ford already employs more production workers overseas, than in the United States. Both in Ford's last "restructuring" in 2000, and in this one, all of the plants closed and jobs cut have been in its North American operations.

UAW President Ron Gettelfinger called the Ford announcement "devastating news for auto workers and their families," the more so because more than half of the 14 plants targeted for closure are still to be announced in the near future, effectively "targetting" the entire workforce with the possibility of layoff and unemployment.

The 14 manufacturing facilities will "be idled and cease production by 2012," but most of them will shut by 2008, said the Ford announcement. The assembly plants identified for closure so far, all of which are to be shut by 2008, are:

- St. Louis Assembly
- Atlanta Assembly
- Wixom (Michigan) Assembly
- Batavia (Ohio) Transmission
- Windsor (Ontario) Casting
- Two additional assembly plants to be named later in 2006.
- Production at St. Thomas Assembly (Ontario) will be cut to one shift.

These shutdowns—with, presumably, seven more engine, other production, or parts plants still to be named—also do not include any of the 14 stranded Visteon parts plants which Ford just bought back from Visteon, and placed into "Ford Automotive Holdings, LLC." Three of these plants have already been scrapped, and *EIR* has published maps identifying all of them as targeted for closure, or breakup after sale abroad.

Ford's announcement called for one innovative expansion in North America, a target to produce 100,000 hybrid diesel-electric cars annually by 2010.

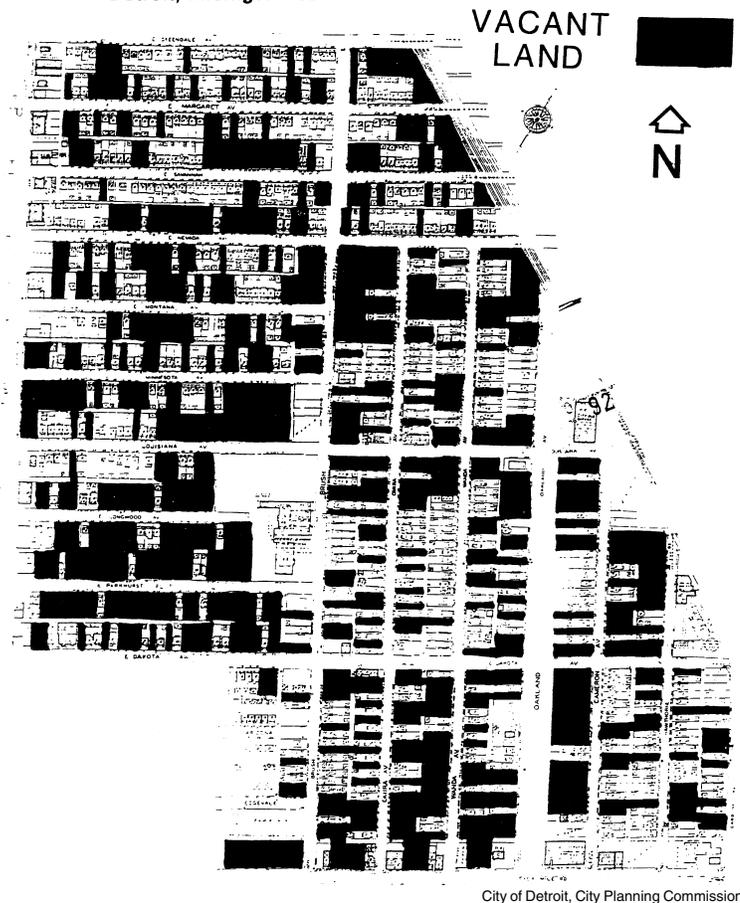
### Suppliers and Cities

Ford had also announced on Jan. 20 that it intends to reduce its global suppliers list, who now do an estimated \$70 billion work annually, from 2,500 today to 800 by 2008-09,

# City of Detroit

CITY PLANNING COMMISSION

202 City-County Building  
Detroit, Michigan 48226



EIRNS/Gene Schenk

*The closings and layoffs being announced by the Big Three automakers will turn whole cities and towns into “ghost towns,” as has already occurred in Detroit. The map shows Detroit’s vacant lots—four times as many as in other cities. The photo shows sections of Detroit that are reverting to grassland; only the line of telephone poles indicates where a street used to run.*

a two-thirds elimination of suppliers. Some 27 suppliers have “preferred” status; these are large companies like Visteon, Dana Corp., Lear Corp., Collins and Aikman, and Federal Mogul. However, some of these companies are bankrupt, and all are, or are becoming, targets for takeover and possible breakup, by foreign auto suppliers, or by hedge funds and “equity fund” pirates like the notorious Kirk Kerkorian and Wilbur Ross.

The impact on towns and cities can be indicated by two examples from the short list of closures above. The city of Wixom, Michigan has only 14,500 residents, with 1,500 production workers employed at Ford Wixom. The auto plant represents 12% of the city’s tax base, according to city manager Mike Dornan: “Wixom wouldn’t be here without it.” And in Batavia, Ohio, east of Cincinnati, the Ford transmission plant to be closed, laying off another 1,500 workers, removes the largest employer in Batavia and in Clermont County; it will knock out 30% of the school budgets for both Batavia, and nearby Sharonville.

Additionally, 4,000 more salaried jobs are to be cut imme-

diately, and executive positions to be cut by 12%, in all claiming to “save” Ford \$6 billion through 2012.

## Levin Speaks of ‘Apollo Program’

The immediate response of Michigan Democratic Sen. Carl Levin to the shock of the Ford announcement, showed that Congressional discussion is taking place along the lines LaRouche has pointed to. However, such words have to pass to detailed action by Congress now; and that action requires acknowledging, clearly, that “innovation in producing automobiles” does *not* meet the challenge of the collapse of the productive economy which the auto crisis represents.

Levin said, on Jan. 24, “Ford’s announcement further highlights the need to turn around the drain of manufacturing jobs in the United States. We must be aggressive in leveling the playing field for domestic manufacturers in areas such as health care and trade, including efforts to fight currency manipulation by other countries. We need an Apollo-type Federal program that includes Federal R&D and tax incen-

tives to encourage manufacturers to continue doing business here and to expand and re-equip existing facilities to meet today's challenges.

"Although I am pleased to see Ford's announcement that it plans to expand its use of advanced technology, which will help to increase its competitiveness, we need to do much more as a country to encourage advanced technology to help all of our domestic manufacturers."

LaRouche's brief Nov. 26, 2005 memo (published below), one of several circulated to Congress since March 2005, made clear in detail the "retooling" action Congress must take and fund, to save the United States from "Third World" destruction of its former industrial capabilities.

## Bill Ford's Message On Auto

by Lyndon H. LaRouche, Jr.

*This memo was written on Nov. 26, 2005. It is republished from the Dec. 9, 2005 EIR.*

If we allow the U.S. auto-manufacturing industry to be destroyed, the U.S.A. becomes a virtual "Third World" nation overnight.

1. The nation's machine-tool-design capability, most of which is tied up in the U.S. auto-manufacturing firms, is lost.

2. The loss of employment of that machine-tool design segment of that part of the labor-force, means many times that number of employees out of jobs, with no other place to go.

3. The loss of auto plants means an economic disaster, approaching ghost-town proportions, for what are already highly vulnerable entire towns, counties, and cities, even states of the union throughout many parts of the country. This could set off a chain-reaction collapse much, much worse than President Herbert Hoover's foolish reaction to the 1929 crash, a Hoover program which cut the U.S. economy in half over the 1930-March 1933 interval.

Cutting back on automobile manufacturers' plants and payrolls is not a sane alternative. As Ford Chairman Bill Ford emphasized in his recent statement, the answer is to diversify the product line. The key to any sane approach is to accept the reduction in the number of automobiles produced by U.S. auto-makers, but to replace that work immediately with a switch to other categories of technologically very high-grade

products which the auto industry's machine-tool capacity is uniquely qualified to design and produce. Members of the U.S. Congress are already focussing attention on urgently needed mass-transit systems, power-generation and distribution systems, and other urgent needs of the nation. These would not be make-work projects, but are the new production needed to prevent the United States from continuing to collapse physically into third-world conditions throughout most of the nation.

Action, by the U.S. Federal government and others, is urgently needed, to prevent an across-the-board collapse of not only the U.S. auto industry, but the counties, towns, cities, and states, and their people, which would be pulled under by failing to act now with the reforms needed to save the industry by switching to a new combination of high-technology machine-tool-design products. But, the problems do not end there.

Right now, the threat from the new Federal Reserve Chairman, is to unleash an orgy of hyperinflationary electronic printing-press money, which is already causing sane bankers and others around the world to think about what happened with hyperinflation in Germany in 1923. We are on the edge of what could easily become the biggest global financial collapse in history, unless our government changes its ways very soon. Bernanke does not seem to have any clue to the answers for that rather immediate danger.

We must keep the doors of the banks open, even some very big banks with very big financial-derivatives problems. The Federal government could do what is necessary on that account; but it could not do that successfully for very long without some very big investment in physical production of basic economic infrastructure including the public power and mass transportation fields, which will stimulate the new lines of machine-tool-designed products which will revive the high-grade manufacturing sector of the economy to true better-than-breakeven levels of employment and output once more.

There is much more to this problem than preventing a collapse of U.S. automakers' manufacturing from kicking the U.S. economy downstairs toward becoming a Third World society. Many of us, inside the U.S. Congress and in other relevant positions, are more and more aware of the need for early large-scale action to halt the collapse and turn the nation's economy back in an upward direction. The case of the effects of Katrina, as on Louisiana, is just one large example of the need for a new, upward-looking turn in our nation's economic policy-shaping.

During the coming weeks and months, *EIR* will be doing its part in backing up the efforts of mass education and economic policy-shaping which are urgently needed now to save the nation, and much more, from a looming catastrophe which threatens to be bigger than almost any man in the street might imagine. We can win; but, to win, we must think again, as we used to think in times past.

# The Auto Crisis: What LaRouche Said, And What Happened

*Since the crisis of the U.S. automobile industry escalated into mass layoffs and plant shutdowns early last year, Lyndon LaRouche has issued one initiative after another, calling for Federal government intervention to save this irreplaceable core of the U.S. machine-tool sector, and for retooling the auto sector to produce—not more cars—but maglev advanced rail technology, and other vital infrastructure for the nation and the world. We review here LaRouche's statements, the breaking developments in the collapse, and the response of constituency leaders.*

## 2005

**March 16:** GM issues a statement saying that its 2005 earnings would be as much as 80% lower than its prior forecast of just two months earlier, January 2005, and that it expects a negative cash flow of \$2 billion for all of 2005.

Standard and Poor's lowers GM's credit rating to one step above junk.

**March 23:** LaRouche calls for a "reconstruction agenda" to save the nation's industrial capacity, in the face of the threatened collapse of General Motors, and expresses his intent to issue a paper on the principles required to do this.

**April 7:** In a Washington webcast, LaRouche addresses the "slaughter" of General Motors:

"There's no way that General Motors could be saved, in its present form, by a bailout or so forth. You could have a general reorganization of the economy. But what happens if General Motors is wiped out, the way that some people will treat it? What some people will do, in the financial market, they will not try to reorganize General Motors, the way that you had the famous reorganization of Chrysler. Nah, that's in the past. They wouldn't try to save General Motors; they would slaughter it. And that's what the Federal Reserve System is up to. That's its policy, right now.

"Now, with slaughtering General Motors—I don't have too much sympathy for the management of General Motors, which generally is pretty incompetent. But, I think there are better ways to get rid of incompetent management, than slaughter the company! Because General Motors represents the United States's greatest concentration of machine-tool capability, which is concentrated in the auto sector, and related sectors.

"Now, we are producing too many automobiles. That is, we can not market, presently, the number of automobiles that

would have to be sold, in the current price-range, in order to stabilize the automobile industry. Can't work. There's nothing you can do about it. *But!* The automobile industry contains this valuable machine-tool capability, which is *irreplaceable*.

"The danger is, that a bankruptcy of General Motors will mean the elimination of that last remaining hard core, largely in aerospace and auto, of the machine-tool capability, which can produce all kinds of things besides automobiles. . . .

"So, what our objective should be, is to go back to a denser utilization, county by county, of the territory and distribution of population of the United States; don't compel people to move such distances to get to and from work; stop the highway congestion; produce efficient mass transit in suburban, or urban areas; produce efficient railway systems, which we can produce. And what do we do, with this kind of reform? How do we do it? Well, we go to the auto industry! We go to the tool-and-die centers of the auto industry and similar industries. The machine-tool factor in the U.S. economy. Here are people working—in danger of losing their employment. And if they aren't employed, we lose their skills. Their machine-tool skills are what we depend upon to maintain a modern economy. If we want to build a new transportation system for the United States, and what goes with it, then we have to employ these people, as tool-makers, for the machinery we require for the new industries. . . ."

**April 9:** In a meeting with labor leaders and elected officials, to discuss a solution to the crisis, LaRouche calls for saving the auto industry as a crucial aspect for U.S. economic recovery. He proposes that the government intervene by placing the productive capacity of the industry into government-supervised receivership, and then fund the retooling and expansion of that capacity, to supply the components of national infrastructure projects.

**April 13:** LaRouche issues a policy statement for emergency action by the U.S. Senate, "An Economic Reconstruction Policy: Recreate Our Economy!" The only solution, LaRouche shows, is to move immediately to save vital productive capacities, such as General Motors, and then move to reorganize the bankrupt global financial-monetary system.

**April 19:** GM announces a \$1.1 billion loss for the first quarter. Wall Street institutions call for permanent closing of several assembly and feeder plants.

President Bush states in a CNBC interview that GM "is going to have to learn to compete. . . . In other words, if the consumer starts saying 'we want a different kind of automobile,' they're going to compete once again with, say, the Japanese automobile manufacturers to . . . keep their lion's share of the market."

**April 20:** Ford Motor Co. announces that its profit fell by 38%, compared to the same quarter last year, and that of the profit it did make, 60% came from its financial services. Chief Financial Officer Don Leclair announces a dismantling plan, saying, "We have more manufacturing capacity than we need." Indicating that Ford is looking outside



EIRNS/Stuart Lewis

*Lyndon LaRouche addresses a webcast from Washington on Nov. 16, 2005, on "The Tasks That Face Us in the Post-Cheney Era." Foremost among these tasks is rebuilding the bankrupt physical economy of the United States, starting with retooling the automobile industry to produce urgently needed goods, such as maglev and other high-tech transportation infrastructure.*

the United States for low-wage manufacturing sites, he adds, "We're aggressively planning to invest in growth areas and allocate our resources where it makes the most sense in the long term."

Standard and Poor's downgrades the credit rating of Visteon—America's second largest auto parts supplier, and the largest supplier to Ford—to three levels below junk bond status.

**May 4:** Corporate raider Kirk Kerkorian makes a move to raise his holdings to 9% of all GM stock. He wants to seize control of the residential mortgage unit of GMAC, the source of half of GMAC's profit.

**May 5:** Standard and Poor's downgrades GM debt two more notches, and Ford debt one notch, both deep into junk bond status.

**May 10:** LaRouche issues a mass leaflet, "Guts and Government," calling for Congress and other leaders to stop vacillating on the GM crisis. See *EIR*, May 20.

**May 11:** Kentucky State Rep. Perry Clark (D) files with the state House of Representatives "A Resolution Urging Congress To Take Emergency Actions To Save the Economy and the Auto Industry."

**May 12:** Cleveland City Council passes a resolution urging the Federal government to protect the automobile industry.

**May 13:** Missouri State Rep. Juanita Head Walton (D) files with the state House of Representatives "A Resolution Urging Congress To Take Emergency Actions To Save the

Economy and the Auto Industry."

**May 13:** Moody's downgrades Ford's credit, although it remains above junk level.

**May 14:** LaRouche issues a memorandum to Congress, "Congress Faces New Turn: On the Subject of Strategic Bankruptcy." Highlighting the collapse of the airline industry, the efforts of GM/GMAC to dump auto-workers' pensions, and the threatened collapse of GM, Ford, and others, he lays out the parameters for a strategic bankruptcy, in the interest of the General Welfare.

**May 18:** Michigan State Rep. LaMar Lemmons III (D) files House Concurrent Resolution No. 13, "to urge the Congress of the United States to take every possible action to promote and diversify the automotive and machine-tool sectors of our national economy."

**June 1:** Wayne County Commission, which represents the county including Detroit, Mich., passes a resolution calling for Congress to promote and diversify the automotive and machine-tool sectors.

**June 7:** General Motors CEO Rick Wagoner tells stockholders he will eliminate 25,000 additional UAW production workers' jobs, and close an unspecified number of production facilities—probably seven—by 2008. This is about a quarter of GM's remaining production workforce. Half a million people's incomes and pensions are threatened. During the first months of 2005, he had already sliced up five GM production facilities—closed or "indefinitely idled"—as 7,900 workers were laid off.

**June 8:** Detroit City Council passes a "Resolution for Federal Intervention To Rescue Automobile Industry."

**June 14:** Buffalo, N.Y. City Council passes resolution calling for "Federal Intervention To Rescue Automobile Industry and Save Jobs."

**June 20:** Columbus, Ohio City Council passes resolution to save auto industry.

**June 21:** Pontiac, Mich. City Council passes resolution on auto crisis.

**June 27:** Flint, Mich. City Council passes "Resolution of Expression Regarding the U.S. Automobile Industry's Current Financial Crisis."

**July 8:** St. Louis, Mo. City Council passes resolution urging congressional action to save the auto industry.

**Oct. 3:** Moody's downgrades GM debt two levels below junk status.

**Oct. 6:** Moody's downgrades Delphi Automotive Corp.'s debt to the seventh level of junk, because its management is preparing bankruptcy. Delphi is the largest U.S. auto-parts supplier, with 180,000 employees.

**Oct. 8:** Delphi Corp. moves for Chapter 11 bankruptcy protection. CEO Robert “Steve” Miller states that if the UAW does not accept his demands for draconian wage and benefit cuts, he will ask the bankruptcy judge to void the UAW-Delphi contract, and then he will unilaterally impose those demands—including a 63% pay cut, and a cut in pensions and retiree medical benefits of roughly the same percent.

**Oct. 12:** In a Washington webcast, LaRouche presents the World War II-style top-down approach that a summit to save the auto sector would urgently need, stressing that in the past, “we have put an entity or a group of entities under Federal protection.”

**Oct. 13:** Louisville, Ky. Metro Council passes resolution on auto crisis.

**Oct. 20:** Sen. Hillary Clinton (D-N.Y.) writes an open letter to President Bush, proposing the convening of a national emergency summit to defend the U.S. auto industry, and more broadly the manufacturing base of the country. “Given the fact that there are over 1 million Americans currently employed in the auto industry, we cannot simply allow one of the core elements of our national economic infrastructure to wither away,” she writes.

Ford CEO William Ford announces that during the third quarter, his company suffered a \$284 million loss, and declared that he will shut a “significant” number of plants in the United States, starting in January 2006.

**Nov. 16:** In a Washington webcast, LaRouche addresses “The Tasks That Face Us in the Post-Cheney Era.” He underlines, in response to a question from a member of the United Auto Workers, that organized labor must take on a *political* fight, on a high conceptual level:

“Any threat to the General Welfare is a political issue. It is a Federal, political issue. If you are going to win this, you are not going to negotiate and have the Federal government sit there and make faces at the enemy. You are going to bring the full power of the Federal government in, to *awe* the enemy. And say, you guys are going to sit here—remember some of these labor negotiations that some of you people have known, where they say: ‘You sit here, and you keep sitting here until you come up with an answer. We’re sitting here. We’re the government. We’re sitting here at the other end of the table. You guys talk, but you don’t get away from here until you come up with an answer!’ And, the trade union movement, at its best, understood that. You make it stick.

“Now the point is, the labor movement is weak. The unions are weak, because the economy is collapsing. They don’t have alternative jobs to run to. They don’t have the ability to withstand long strikes. Even though the corporations don’t either; they’re all bankrupt already. But, you have a financial system which is determined to *end the pension system*, absolutely. And that’s a political fight. Somebody’s trying to change the character, the constitutional character, of the United States government. That is an invading enemy. That’s an enemy from outside, because these

are foreigners who are doing it. And, therefore, we have to defend our country. Defending our country means the principles of our Constitution. . . .

“This is a political issue. It has to be treated as a political issue, otherwise it is a loser. Why stage a war you are going to lose? Bring your artillery in!”

Hundreds of youth and trade unionists attending the event lobby Congress for action on the LaRouche’s emergency plan for conversion of the auto industry.

**Nov. 22:** Ford Chairman William Ford, speaking at the National Press Club in Washington, calls for congressional intervention to address the auto sector crisis. He emphasizes the need for increasing the R&D tax credit to support companies working on new technologies, and to convert existing—but outmoded—plants into high-tech facilities.

**Nov. 23-26:** LaRouche issues a series of memoranda, published in *EIR* on Dec. 16, in response to Ford Chairman William Ford’s Nov. 22 speech in Washington (see accompanying reprints in this issue).

**Dec. 1:** LaRouche urges Congress to hold field hearings and town meetings everywhere the auto crisis is hitting.

**Dec. 3:** House Minority Leader Nancy Pelosi (D-Calif.) gives a speech at Harvard University, presenting the Democratic Party’s “Innovation Agenda: A Commitment to Competitiveness To Keep America Number 1.”

**Dec. 9:** The National Black Caucus of State Legislators (NBCSL), at its annual conference in Washington, D.C., adopts a resolution calling for congressional intervention to save the auto industry, by credit and retooling for economic infrastructure construction.

**Dec. 12:** Standard and Poor’s downgrades GM bonds once again, to far, far below junk grade.

**Dec. 15:** In a memorandum to *EIR* staff, “Rebuilding the U.S.A.: Travel Among Cities,” LaRouche provides a guide to producing the animations required to illustrate the tasks of economic reconstruction of the U.S. transportation grid. See *EIR*, Dec. 30, 2005.

## 2006

**Jan. 11:** LaRouche webcast in Washington, “Rebuild a Looted U.S. Economy.” Once again, he outlines the parameters for conversion of the auto sector to useful production. “Probably about one-third, or one-quarter of the present automobile manufacturing can be sustained, as an industry,” he says. “The rest of the industry, which is largely machine-tool driven, will be used for other things, like building railroad systems, repairing our river transportation systems, building power systems—lots of power systems; we’re in a power crisis. These kinds of things.”

**Jan. 19:** Democratic Party Congressmen and Senators assemble in Washington to discuss the “Innovation Agenda.” (See article in *National*.)

**Jan. 23:** Ford Motor Company announces 30,000 layoffs of production workers, one-third of its remaining North American production workforce.

# LaRouche Open Letter To Bill Ford

*Lyndon LaRouche's Nov. 23, 2005 public letter to Ford Motor Company Chairman and CEO Bill Ford is reprinted below from EIR, Dec. 9, 2005. After the public letter, LaRouche's follow-up memorandum is reprinted from the same issue of EIR.*

RE: Reorganizing the Auto Industry  
Dear Chairman Ford:

I not only wish to express my hearty agreement with the statement of Nov. 22, 2005, which you delivered to the National Press Club, but to indicate the emergency measures which are both feasible and necessary. These are measures which our government must undertake as essential measures of assistance, to prevent a looming catastrophe for the economic future of a U.S.A. which remains, despite everything, still today, the pivot and hope of a general economic recovery for a crisis-wracked world at large.

The views I express here are the same which I address to relevant members of the U.S. Congress and others on this and related subjects. Putting this on the public record, with you, in this way, should be helpful to those leading members of the Congress who share my own and your expressed concern on this matter.

To wit:

Since the shift in outlook of our most influential circles which occurred over the course of the 1964-81 interval, we have shifted from being the greatest productive machine the world had ever known, to the ruin of a post-industrial utopian "service economy." This is apparent to us, if we calculate as I and my associates have done, and present an animated view of year-by-year downshifts in physical characteristics of our nation's economy, county by county, during the course of the recent decades.

As your statement implies, the U.S. automobile industry is essentially the major component of the machine-tool-design capability of our republic as a whole, complemented chiefly by a kindred role of the machine-tool-design component of the aerospace sector. If we dismember that specific capability, we become a Third World-like relic of our former selves. Economic devastation will sweep every part of the nation's communities, which would be directly and indirectly affected by such a ruinous development.

This industry is not made by automobiles; it, among other things, makes automobiles. It can produce almost anything which we might rely upon the existing auto industry to produce, such as a new mass-transportation grid, including mag-

netic-levitation grids, crucial elements of urgently needed new power-generation installations, essential components required for rebuilding the nation's ruined and depleted water-management systems. Essentially one-half of a competent design of a modern economy depends upon basic economic infrastructure. That is the ration which distinguishes us from the highly vulnerable industrial sectors of the economies of the Asian countries such as China and India today, where national income, at current export prices, is insufficient to meet the needs of the lower 80% of family-income brackets of those nations today.

Now, the process of transforming our nation from the world's leading agro-industrial power into a depleted, bankrupt "services economy" of today, has reached the point that we are a bankrupt nation. Only those powers of national sovereignty embedded in our Constitutional system, enable us to avoid imminent national bankruptcy; but, this can not be continued much longer under present trends. We require a general reorganization in bankruptcy of an otherwise hopelessly bankrupt present Federal Reserve System, as virtually all of the world has a similar or worse predicament. We require a method of mobilizing a recovery which looks back to what worked to make us, once again, the world's greatest economic power ever, under programs such as those of President Franklin Roosevelt's Harry Hopkins and Harold Ickes.

The required stimulus for a U.S. economy under the recovery measures which a reorganization of the Federal Reserve requires, will be a concentration on basic economic infrastructure by government, coupled with the revival of the private sector through contracts and credit to private vendors in participating support of those programs at the Federal and state levels. The national-security urgency of rationalizing a national air-rail system of functional reunification of our territory, is merely an apt illustration of the way in which the capacity of the automobile industry must be diversified, a full utilization of its machine-tool-vectorized capacity as a whole, within a new division of labor in respect to the industry's net product.

This requires a core remedy built around an Act of Congress which enlists a sufficient part of the existing potential of the industry to maintain existing machine-tool developmental potential and present community employment to maintain the capacity of the industry intact, while diversifying its product in ways which are both consistent with the national interest and represent an adaptation to the reduction of the domestic market for automobiles manufactured by U.S. firms.

We have ruined our nation and its economy with the recent four decades of drift downward into what is termed, euphemistically, a "services economy" today; but, we remain, with all our ruinous faults, the nation on whose exemplary leadership the world depends, politically, for a recovery from the immediate threat of a general financial-monetary breakdown-crisis of the present world monetary-financial system at large.



*Maglev technology will be an essential part of a general policy of integrated development of the nation's transportation system. Here, Germany's Transrapid.*

You struck the right note on the subject of recent economic history. We need the right implementation that implies. That is not merely an option; it is presently the only economic option our nation actually has available. The U.S. Senate and related institutions will need support on the matter of feasibility of the required reforms in national mission-orientation. A widened dialogue on the implied substance of the issues is timely.

This will require an act of Congress, probably emanating from the relevant committee of the U.S. Senate, to create the authority providing the needed cover for the reorganization of the existing automotive industry to that effect.

Under such an act, the existing industries, and their associated key machine-tool associates, would enjoy federally supported means for orderly reorientation without loss of any essential productive elements. A special facility, established under Federal law, would be needed to provide a protective cover for this, while creating the programs of expanded categories of activities, beyond the existing industries' present marketing missions, in mass transport and other fields.

You and your associates have the experience needed to craft relevant proposals defining the primary opportunities for relevant technological forms of market diversification based the industries' existing machine-tool-design potentials.

This Federal provision must include the orientation of establishing the U.S.A. as once again the technological leader which we encourage and assist other nations to match and emulate. Science and its indispensable partner, machine-tool design, must become once again the exemplary standard of U.S. industrial performance. That must be the mission of the Federal provision for this reform.

Sincerely yours,  
Lyndon H. LaRouche, Jr.

cc: U.S. Senate

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## Follow-Up on Ford Letter

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# Auto and World Economic Revival

by Lyndon H. LaRouche, Jr.

Nov. 24, 2005

On the subject of my letter to Chairman Bill Ford, there is clearly much more to the matter than I stated there. What I stated is valid as far as the subject there goes, but the continuing success of what I propose depends upon the assumption that certain other measures, of broader implications, are taken in support of what I outline in that letter. I identify several among the crucial such points here.

**1.** The implementation of what I outline as the diversification of the application of the auto industry's capacity, implies the adoption of a general policy of integrated development of the nation's public air, rail, or maglev transport, and waterborne inland and foreign transport.

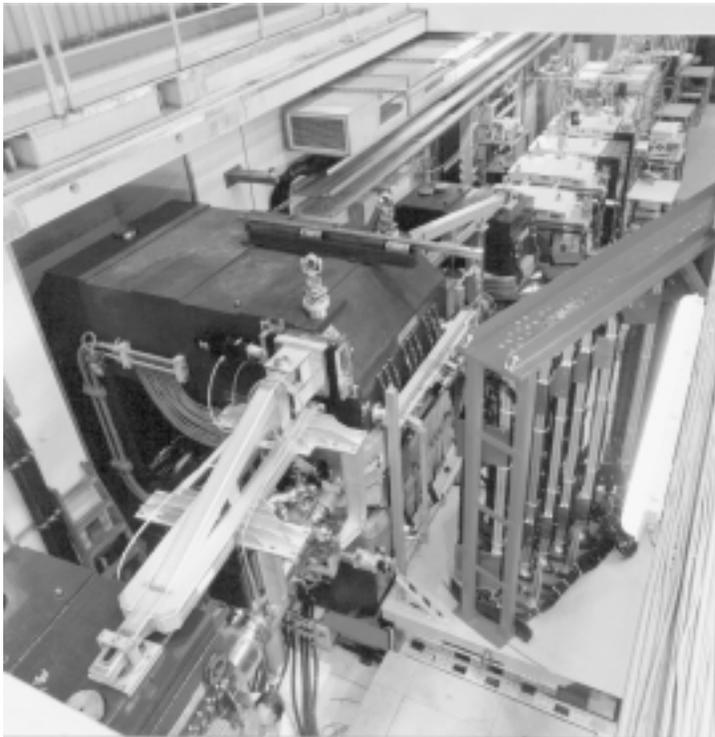
**2.** It implies a rebuilding of the nation's power grid, with heavy emphasis on high-temperature gas-cooled nuclear-fission reactors (of approximately the Jülich type), and the shift of highway-vehicular and air-flight power to generation of hydrogen-based fuels regionally/locally, where petroleum-based fuels are employed today.

**3.** It anticipates a return to emphasis on adoption of targets of high standards for physical-economic output, per capita and per square kilometer, for each county of the United States.

**4.** It requires a return to a "fair trade" marketing policy in domestic trade, and import-export tariff- and quota-regulation in foreign trade and public transportation of passengers and freight.

**5.** This implies a set of emergency and continuing reforms of the international monetary-financial system, based on a) a return to an international fixed-exchange-rate, carefully regulated system; b) this means a reversal of a "free trade" policy, back to a global "fair trade" policy, consistent with low-cost long-term credit for physical capital improvements over spans of a quarter- to a half-century physical-investment-depreciation cycles in both domestic and foreign affairs.

**6.** Special attention must be given to the crucial ratio of physical output and standard of household consumption per capita and per square kilometer for the entirety of the population and territory of each sovereign national economy. This means that nations with relatively higher average national values of this type must feed the technological upgrading of economies downstream, and that more advanced economies



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*A nuclear research facility at Germany's Jülich Research Center. The Jülich high-temperature gas-cooled reactor design, now being built in South Africa, is the type of new modular reactor needed to rebuild the U.S. power grid.*

must specialize in exports and related practices which have the effect of upgrading the physical standards of living and physical-productive output per capita and per square kilometer of downstream nations. This will be fostered largely through the creation of long-term credit for physical-capital improvements at simple interest rates of between 1 and 2%.

7. Since nearly all leading national banking systems are currently bankrupt, and since the present international monetary-financial system is hopelessly bankrupt under any attempted continuation of current policies, the crucial immediate issue is keeping essential banking institutions functioning, even in a state of bankruptcy, to such effect that the resolution of bankrupted institutions' honorable debts occurs over the span of some reasonable horizon, and that worthless claims, such as financial-derivatives speculation, are debrided as uncollectible gambling debts.

### **First Discussion of the List**

There may be strong, even violent objections to certain crucial elements of this catalogue; but, objections must be placed as a much lower priority than avoidance of the presently impending threat of a general breakdown-crisis of the entire present world system.

Essentially, this means what was already implicit in the design of the original Bretton Woods system: the replacement

of the British East India Company's neo-Venetian model of globally hegemonic financier-oligarchical system, by the form of capital-credit system represented by the American System of political-economy. The doctrine of the abysmally failed model of "free trade, services economy" system, has proven itself a calamitous failure, where the Bretton Woods design was a success. Reorganization in bankruptcy must be nothing other than removing the disease, in favor of promotion of healthy tissue.

The great strategic issue, globally, of this moment, is whether we shall all go quickly to Hell under a system in which national governments, if they are permitted to exist, are merely lackeys of international financier oligarchies, or international monetary-financial and related credit systems shall be an equitable, and durable, arrangement among perfectly sovereign nation-states, that for more than two generations yet to come. The financier-oligarchical model which was provoked into being by the 1964-67 rampage of Britain's first Harold Wilson government, has been a catastrophe, where the postwar Bretton Woods system, with all the errors of practice imposed upon it, was relatively a triumph. The conclusion should be obvious.

### **Second Discussion of the List**

Obviously, the attempt to implement all of the essential features of that list of needed reforms, must take into account the factor of "political ripeness." Some elements are susceptible of more or less immediate, and also urgent, action. Of others, new developments must be experienced before we find readiness to implement such measures. All elements are essential, but yet, like the components of a functioning assembly, they may be crafted separately. The span of lapsed time available for completing all essential measures is limited by real factors we can not willfully control; but, there is some latitude for a piecemeal implementation, on the condition that we see the intended final result as the adopted perspective within which each step of reform occurs.

The key point to be emphasized, is the need to build confidence in this approach. By saving the United States' vital machine-tool sector, on which the life of our economy as a whole depends, we build support and confidence for other, related steps to be taken, as the experience of the Franklin Roosevelt Presidency illustrates the point.

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### Stop the Casino Economy!

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*Cases of insolvency on the unregulated “gray capital” market show the urgent need for financial market regulation.*

The recent bankruptcies of several investment funds in Germany demonstrate that “any casino is a more regulated place, than what you find in the ‘gray capital’ market of Germany,” an investment expert told this author. Recent widely publicized cases involve the Würzburg-based Euro-Group, with 40,000 investors; the Berlin-based VermögensGarant, with up to 15,000 investors; and the Leipzig-West firm, with 25,000 investors. In all three cases, investors were offered huge dividends—twice or thrice the level usually earned on the market—and the fund’s operations were run on the basis of a pyramid system: Those who pay in last, pay off those that engaged earlier (including banks, which usually are the first to demand their money back).

In all three cases, the managers of the funds had a record of fraudulent activity already, long before they started their latest “investment” schemes. At the Euro-Group, a conglomerate of numerous minuscule “post office box” firms, the key initiator had been sentenced previously for defrauding tens of thousands of credulous eastern German citizens. VermögensGarant had received restraining injunctions from four big private banks, whose names and reputations were misused for advertising investment projects with a huge dividend of 8.5%. The banks were ABN Amro, Crédit Suisse, UBS, and Société Générale. In June 2005, investigators raided the Berlin office of VermögensGarant, but did not seize its files, despite a long history of fraud. Unwilling or unable to pay dividends to

investors or to give them back their money, the firm declared itself insolvent.

Leipzig-West maintains an image as a private housing firm, and indeed, it owns some 250,000 square meters of flats and offices in Leipzig and other German cities. But the scope of its enterprise is much too small to offer a dividend of 6-7%, as the company has done. Apparently, a substantial share of the dividends came from other sources, such as bank loans and fresh funds from new investors in the pyramid scheme. In December, the firm was unable to pay dividends on time to its 25,000 investors, using the ridiculous claim that a computer malfunction was forcing it to process the payments by hand, which would take up to six weeks. Investors fear that when the six weeks are gone, their money will be gone as well.

Apart from the individual aspects of fraud in all three cases, the fact is that high-risk operations like these aggressive investment funds, with their promises of huge dividends, are among the first to bite the dust, as the global system of speculative finances as a whole is turning more volatile by the day. The small “pyramids” are part of the big speculative pyramid. Highly exposed private banks all of a sudden refuse to grant fresh loans, and the costs of paying off short-term loans that are typical for high-risk funds, mean the abrupt end of such operations.

There is not much investor protection in Germany, such as a law that would hold fraudulent managers personally responsible and would sanc-

tion them effectively. Today, a fraudster can let his fund or firm go bust, risking a court case and sentence, paying a relatively minor fine of 50,000 euros, and walking away a free man, moving on to new fraudulent enterprises. Initiatives to get regulatory legislation enacted have so far failed to get a positive response from policymakers. The situation is similar to that of the hedge and private equity funds, where the most that the policymakers would do, is to make “more transparency” mandatory, with legislation that will go into effect this Summer.

But a general, in-depth regulation of the financial market, and in particular of the totally unregulated “gray capital” market, has never been put on the official agenda.

Investment watchdogs are aware of the problem, but there is little they can do. Even with the aforesaid legislative improvements concerning hedge and private equity funds, the chief financial market watchdog of Germany, the BAFIN, will “still have fewer teeth than, for example, the corresponding watchdogs in the U.S.A.—the SEC—or in Britain—the FSA,” an investment expert told this author.

But watchdogs alone will not solve the problem, which is the present global casino system as such.

The LaRouche movement in Germany is campaigning for a New Bretton Woods reorganization of the global financial system, which, along with a productive investment program, is the only thing that will really solve the situation. The slogan of the Civil Rights Movement Solidarity party (BüSo) is “Stop Speculation, Fund Production!” The BüSo is campaigning now in the mayoral elections in Leipzig and Wiesbaden. In the latter, which is a gambling center, the BüSo vows: “Stop the Casino Economy!”

## Kirchner Rallies S. America To 'Build the New Times'

by Dennis Small

"The idea of South America as the Cinderella of the world is over. We don't want to be the backyard anymore; we want to take an active part in building the new times that await us."

These words were spoken by Argentine President Néstor Kirchner on Jan. 18, 2006, during a visit to neighboring Brazil. Kirchner was addressing a joint session of Brazil's Congress, a distinction bestowed on very few visiting dignitaries.

When Kirchner speaks, friend and foe alike listen. His government succeeded in negotiating an historic 65% write-down of the country's usurious public debt in March 2005. In September 2005, Kirchner's Foreign Minister Rafael Bielsa called for a New Bretton Woods, in a speech to the UN General Assembly. And in December 2005, Argentina and Brazil coordinated a surprise move to pay off the entirety of their respective debts to the International Monetary Fund, in an effort to deflate the IMF's ability to impose asphyxiating economic conditionalities on their countries. Néstor Kirchner, in a word, is the synarchist bankers' worst nightmare in South America.

"The times are propitious," Kirchner explained in another speech on Jan. 18, after meeting with Brazilian President Lula. "It is up to us to take advantage of them, and to understand that individually it will prove much more difficult to do this. International economic circumstances are favorable."

Kirchner's trip to Brazil is part of a December-January wave of intense regional diplomatic activity by a number of South American Presidents and Presidents-elect, whose intention is to promptly put in place a viable alternative to the insanity of looting and destabilization issuing from the Cheney-Bush Administration. In fact, the entire region is embarked on a kind of anti-Nazi revolt, as most dramatically

reflected in the results of the Jan. 15 Chilean Presidential elections, where the followers of the fascist Gen. Augusto Pinochet were trounced at the polls (see article, p. 41).

The fact that Pinochet's patrons—Henry Kissinger, George Shultz, Felix Rohatyn—are also behind the current drive to entrench Carl Schmitt's Nazi doctrine of law on the U.S. Supreme Court, has scarcely been lost on South America's political elite. Lyndon LaRouche's press releases and articles documenting the case have circulated widely in Ibero-America, and LaRouche Youth Movement demonstrations in Argentina, Colombia, and Mexico against Washington's "Schmittlerians" have also received prominent media coverage. The leading Madrid daily *El País* on Jan. 25 also editorially blasted Schmitt's followers in the Bush-Cheney Administration—an indication of an Iberian component of the South American anti-Nazi revolt (see *Feature*, p. 7).

In point of fact, the "favorable international circumstances" which Kirchner took note of in his speech in Brazil, are primarily the result of the string of major political blows that Dick Cheney et al. have suffered in recent months at the hands of LaRouche and allied Democratic and other forces. Whether South America's leaders are fully aware of it or not, it is these developments in Washington which have opened up the political space in which South Americans are now moving.

### Lunar Eclipse

Recall what was happening in South America a mere six months ago. Back then, U.S. Vice President Dick Cheney and Defense Secretary Donald Rumsfeld were in the thick of establishing a U.S. military base in the heart of South America, at Mariscal Estigarribia in Paraguay (see *EIR*, Sept.

2, 2005). That base was designed as the staging ground to unleash regional chaos and warfare, with the aid of the Reverend Moon cult, with its huge landholdings in the area. The first nation targeted for disintegration was Bolivia.

As *EIR* wrote at the time, Bolivia is highly polarized between left and right, with the gas-rich provinces of Santa Cruz and Tarija already talking about secession. Cheney's neocons were pushing these provinces, *EIR* wrote, "to split from Bolivia, form an independent country, and ally with neighboring Chile," playing on the historic hostility between Bolivia and Chile dating back to the 19th Century War of the Pacific. The Cheney-Rumsfeld plan "could include supra-national troop deployments to back up a new 'Santa Cruz Republic,'" *EIR* warned.

Compare that looming disaster to what just occurred on Jan. 22, at the inauguration of the new Bolivian President, Evo Morales. The President of Chile, Ricardo Lagos, not only attended that inauguration—the first visit of a Chilean President to a Bolivian inauguration since 1955—but he accepted Morales's symbolic invitation to meet with him in his private home, a modest apartment. After the meeting, both Lagos and Morales asserted their commitment to peaceful relations.

What brought about the change? A curious Ibero-American institution which Lyndon LaRouche once insightfully called *the Presidents' Club*.

### Presidents or Parliaments?

Ibero-America has historically had a tradition of nation-states built on republican Presidential systems modelled on that of the United States, as opposed to Anglo-Dutch liberal imperialism's parliamentary systems, such as those prevalent in Europe today, under which synarchist central bankers have de facto control. In Ibero-America, given the relative weakness of individual countries, the Presidents have tended to band together in a fraternity of sorts which—notwithstanding the other political and ideological differences among them—has given the Presidents a certain strength in unity.

Thus, whenever a new President is inaugurated in one Ibero-American country, it has been commonplace for most of the other Presidents to attend the ceremony, and welcome him into the fold. When one country's institutional stability is threatened, others rally to its support.

This informal Ibero-American Presidents' Club was greatly weakened over the last 10-15 years, as bone-crunching IMF austerity induced an every-man-for-himself outlook. On

top of that, synarchist agencies such as the National Endowment for Democracy (aka Project Democracy) and the World Bank, launched concerted warfare on the very *idea* of a Presidential system, on the grounds that it ipso facto fostered corruption, authoritarianism, and dictatorship. Taking a page from the Nazi jurist Carl Schmitt, they demanded that "Constituent Assemblies" be convoked to rip up the existing Constitutions, and that "more democratic" parliamentary systems be put in place. More often than not, the "anti-authoritarian" bilge of Nazi Martin Heidegger and his fascist sympathizers Hannah Arendt and Theodor Adorno was cited in support of such measures.

But by late 2005, the nearly defunct Ibero-American Presidents' Club sprang back into action. The turning point was the Oct. 23 landslide victory of Argentine President Kirchner's slate of candidates, in that country's mid-term election, which gave Kirchner the political backing to escalate his leadership role regionally. Consider the following chronology:



## A Chronology of Recent Diplomacy

**Oct. 23, 2005:** President Kirchner's Victory Front electoral coalition sweeps Argentina's midterm congressional elections, in a contest widely viewed as a plebiscite on his hard-line policy against IMF conditionalities and bankers' looting. Kirchner and his candidates also win undisputed control over the Peronist party, by defeating the candidates of his Peronist rival Eduardo Duhalde. Brazilian President Lula, who had been supporting Duhalde from the sidelines, and giving Kirchner only lukewarm support internationally, is quick to read the import of the election results.

**Nov. 4-5, 2005:** The Summit of the Americas in Mar del Plata ends in a stunning defeat for Washington's policy of free trade and globalization, which is rejected by a coalition of nations led by Argentine host Kirchner, despite massive U.S. pressure. Brazilian President Lula not only shares Argentina's intransigent opposition to the Free Trade Agreement of the Americas, but sends an unmistakable signal by leaving the summit before the final resolution is hammered out, and instructing his Foreign Minister to vote on the final document *whatever way the Argentines voted*—i.e., effectively giving Kirchner his proxy.

**Nov. 30, 2005:** Kirchner and Lula meet in Puerto Iguazú, Argentina, on the 20th anniversary of the 1985 integration agreement between the two nations, out of which came Mercosur, the Common Market of the South which today includes Argentina, Brazil, Uruguay, and Paraguay, with Bolivia and Chile as associate members. The final communiqué from this meeting says that the two governments will take a joint position in talks with the IMF, and that the two countries will move forward in cooperation in space and nuclear technologies.

**Dec. 9, 2005:** At a meeting in Uruguay of the Mercosur council, Venezuela is admitted as a new member. The member states sign a Memorandum of Understanding endorsing Venezuelan President Hugo Chávez's proposal that a 5,000-mile natural gas pipeline be constructed from Venezuela's rich gas fields, down through Brazil and into Argentina and other South American nations.

**Dec. 13, 2005:** President Lula announces that Brazil will immediately pay off its entire debt to the IMF, some \$15.5 billion.

**Dec. 15, 2005:** President Kirchner announces that Argentina will immediately pay off its entire debt to the IMF, of about \$10 billion. "We are burying a good portion of the ominous past of infinite indebtedness and eternal adjustment," he explains, adding: "We have been instructed in impotence and told that we can't do anything." But now, he warns, the Argentine President will use his "popular mandate" to act as a protagonist, in the best interests of Argentina's people.

**Dec. 18, 2005:** Evo Morales is elected President of Bolivia, with a strong 54% majority.

**Jan. 13, 2006:** Bolivian President-elect Morales meets

with President Lula in Brasilia, Brasil.

**Jan. 15, 2006:** Michelle Bachelet is elected President of Chile, with over 53% of the vote.

**Jan. 17, 2006:** Bolivian President-elect Morales meets with President Kirchner in Buenos Aires, Argentina.

**Jan. 18, 2006:** Argentine President Kirchner visits Brazil, where he meets with President Lula, the head of the Supreme Court, and speaks before a joint session of Congress. The final communiqué of the Presidential meeting strongly reaffirms the Argentine-Brazilian "strategic alliance" as the "touchstone of South American integration," and their joint commitment to "solving situations that could affect regional peace and stability"—a clear reference to the Bolivia hot spot.

Both Lula's and Kirchner's speeches also announce their intention to help stabilize Bolivia, as well their ongoing cooperation on nuclear energy and aerospace. (See *Documentation*.)

**Jan. 19, 2006:** Venezuelan President Hugo Chávez joins Kirchner and Lula in Brazil, for a tripartite summit, whose final communiqué also stresses their joint commitment to support "Bolivia's political, economic, and social stabilization," as well as the South American gas pipeline project.

**Jan. 21, 2006:** Brazilian President Lula tells the Bolivian daily *La Razón* that the heads of state of Ibero-America have the obligation to help the new President of Bolivia, Evo Morales, govern. This includes opening the markets of Mercosur nations to alternative Bolivian exports, to replace the country's coca leaf exports. Lula also reports that he had asked Morales to draw up a plan of economic and other proposals to be given to Brazil, and that he had already spoken with the Presidents of Venezuela, Argentina, Peru, and Chile, about the proposal.

**Jan. 22, 2006:** Evo Morales is inaugurated as President of Bolivia, with 11 heads of state attending—including Kirchner, Lula, Chávez, and Chile's Ricardo Lagos. The presence of the Chilean President, in particular, punches a major hole in Cheney's gameplan of unleashing chaos and warfare across the Americas.

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## Documentation

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### Argentina-Brazil Accord Moves Toward Integration

#### Brazil-Argentina Joint Declaration

*On Jan. 18, Brazilian President Luiz Inacio Lula da Silva and Argentine President Néstor Kirchner met in Brasilia, Brazil, and issued a Joint Declaration, which is translated and excerpted here.*

[The Presidents] reiterated the current validity, the solidity, and the indispensable nature of the Strategic Alliance between Brazil and Argentina, the touchstone of South American integration and a factor of progress, development, and regional stability, and reaffirmed their willingness to continue to reinforce the basis for building a common future.

To this end, they decided to establish a new system of bilateral consultation and coordination, with Presidential meetings every six months, preceded by meetings of the Foreign Ministers, and they determined that the Deputy Foreign Ministers would meet every three months.

They reviewed the regional situation, marked by a broad convergence of values that open exceptional perspectives for the deepening of integration. In this sense, they stressed the essential role that Mercosur plays in this process, and the need to continue working for its consolidation and expansion, guaranteeing adequate benefits to all of its members. Similarly, they reiterated their full agreement with the goal of advancing in the direction of the consolidation of a South American Community of Nations. . . .

The two Presidents viewed with satisfaction the advances achieved by the Health Ministers of Brazil and Argentina since the signing of the Protocol of Intent regarding joint work on research, development, and production of medicines and vaccines, especially of retrovirals and reagents for HIV-AIDS, as well as the decision to install a bi-national factory for their production. The joint production of medicines and advanced technology reaffirms the spirit of greater health autonomy of the two Nations.

They committed themselves to always keeping open the channels of consultation and cooperation on these questions, and renewed their permanent readiness to actively and jointly contribute to solving situations that could affect regional peace and stability. . . .

### **Kirchner Speech Before Brazilian Congress**

*On Jan. 18, Argentine President Kirchner addressed a joint session of the Brazilian Congress. Excerpts follow.*

. . . We are going through a change of era, which involves a strong paradigm shift, both in the region and in the world. Both of our governments have fully understood this reality. In our bilateral relations, we are absolutely aware of how much we have done but also of how much remains to be done. . . .



PR/Richardo Stuckert

*The Ibero-American "Presidents' Club" is thwarting neo-con plans to loot the continent. Here, Venezuelan President Chávez, Argentine President Kirchner, and Brazilian President Lula at their summit meeting in Brazil on Jan. 19.*

Similarly, our countries have decided to break with a past that has imprisoned us. Not only have we ended the debt with the IMF, but—and this is the most important—we have recovered our total autonomy to decide what to do with our resources and our autonomy.

We transmitted this same message of sovereignty and defense of our interests during the Summit of the Americas in Mar del Plata, where we firmly stated that the only free trade we accept is that which brings with it benefits for all participants, and not one that conceals one-sided agreements.

We were also a solid, serious, and forceful voice at the Hong Kong meeting of the World Trade Organization's Doha Round, where we unreservedly exposed the hypocrisy of a world trade which proclaims free trade for those products in which the developed countries are competitive, and protectionism for those in which they are not. Argentina and Brazil were the protagonists of a group of countries which offered creative, intelligent, and constructive ideas and proposals.

In October 2003, when President Lula conducted a state visit to my country, we issued the Buenos Aires Consensus . . . [in which] we stated that regional integration constituted a strategic option for strengthening the insertion of our countries into the world, increasing their negotiating power. We declared that greater autonomy in decision-making would allow us to more effectively confront the destabilizing movements of speculative financial capital and the opposing interests of the most developed blocs, amplifying our voice in various forums and multilateral organizations. We stated that management of the public debt had to have as its objective the creation of wealth and of jobs, protection of savings, reduction of poverty, fostering of education and of health, and the possibility of maintaining sustainable policies of socio-economic development. . . .

On the multilateral plane, as we indicated earlier, one can clearly see the new way we relate to the international financial world, and the hard-fought defense of just trade, beneficial to our people, as we demonstrated by coordinating our actions in Mar del Plata and in Hong Kong. . . .

We must consolidate the unity of the countries of South America, but we must also raise one voice, one plan, and one sense of identity, to give us the necessary potential to dialogue with other world blocs. The idea of South America as the Cinderella of the world is over. We don't want to be the backyard anymore; we want to take an active part in building the new times that await us. . . .

We must be at the forefront, in the vanguard of the battles, making clear to the whole world that South America wants to be a part of the world, and no longer in the rear. And we definitely want our leaders, we ourselves, those of us to whom it has fallen to be Presidents and legislators, to achieve the summit of history, so that that history begins to become the history that our brothers and sisters, that our citizens deserve.

### **Kirchner Speech Following Meeting with Lula**

*On Jan. 18, Argentine President Néstor Kirchner delivered remarks, excerpted below, after meeting with Brazilian President Lula da Silva.*

. . . Argentina and Brazil are partners in Mercosur, in the South American Community of Nations, in the Americas, and in the world. We are partners for democracy, we are partners for peace, and we should be partners in obtaining our development. The times are propitious. It is up to us to take advantage of them, and to understand that individually, it will be much more difficult to do this. International economic circumstances are favorable, the world is marching toward a new multilateralism marked by greater consumption by giants like China and India, who are embarked on a path of development. Immense sectors of their populations are rapidly improving their quality of life, and they demand a class of products and services that we can provide, some of which—like soy and steel—we are already providing. . . .

Mercosur should transform itself into the key policy for job creation and for successfully resolving the enormous challenges that we face from a world that puts a premium on producing and exporting goods with high value added, and on obtaining raw materials. Our strategy should be to complement each other in Mercosur to be able to negotiate and compete more strongly with the rest of the world, producing high technology goods and raising salaries that reflect the development of the region. . . .

In Paraguay and in Uruguay, criticisms of Mercosur grow stronger with regard to what is considered a lack of attention to those asymmetries. It is necessary for us to meet in a joint exercise to address these complaints, preserving our solidarity. . . .

I cannot fail to emphasize the satisfaction we all feel in

affirming that our beloved Bolivia has been able to resolve a difficult situation, adhering to democratic institutions and to its Constitution. This is, doubtless, the Bolivian people's achievement.

We also want to send our congratulations to, and to deepen integration with, the sister Republic of Chile. . . .

Mercosur was the proud and hopeful witness to a clean and peaceful election, and now awaits the full incorporation of Bolivia into an increasingly more powerful and promising bloc. . . .

I would like to say to brother Brazilians, and to all the members of Mercosur, but in this special case to all the brothers and sisters of Brazil, that they can take pride in the President they have. We Argentines have valued him as a Latin American brother who has accompanied us, in Brazil's name, during a tremendously difficult situation. You all know what we went through. . . . It is something that we Argentines will never forget and that the brothers and sisters of Brazil can feel proud of, because they have a President who reacts the way he did in the face of a brother nation such as Argentina, which faced a particular problem. . . .

### **Lula Speech Following Meeting with Kirchner**

*On Jan. 18, Brazilian President Lula delivered remarks, excerpted below, after his meeting with Argentine President Kirchner.*

. . . Argentina and Brazil are committed to the consolidation of an area of peace and prosperity in South America.

In the series of visits which Bolivia's President-elect, Evo Morales, just made to Brasilia and Buenos Aires, Argentina and Brazil are examining ways to help this brother country, contributing to its full integration with the region, and above all to the well-being of the Bolivian people. . . .

The decision of our governments to pay off our debts to the IMF, in particular, reinforces the determination of Argentina and Brazil to redefine, in a coordinated way, their place in the world. . . .

We are perfecting our nuclear collaboration in the framework of the Brazilian-Argentine Control and Accounting Agency [for Nuclear Material]. We want to broaden our cooperation in the area of nuclear power and aerospace. . . .

My friends, I want to pay special homage to the leadership of President Kirchner. Under his direction, Argentina left behind years of skepticism and submission, to finally find its destiny.

His government overcame the worst economic crisis in the history of Argentina, recovering income and employment levels. He restructured an asphyxiating foreign debt and wrote down the country's financial obligations, restoring Argentina to its traditional outstanding place in the international community. More than that, he restored pride and hope to a nation rich in history and potential. . . .

We both won elections, and we, politically, exist precisely to solve the challenges which others don't dare solve. . . .

# Nazi Alito's Friends Lose in Chile Elections

by Cynthia R. Rush

When Michelle Bachelet, the Socialist candidate of Chile's governing Concertación coalition, won an overwhelming victory in the second round of Chile's Presidential elections Jan. 15, she didn't just defeat the single candidate of the right-wing Alliance for Chile coalition, billionaire business magnate Sebastián Piñera. With 54% of the vote, more than the 51% that current Socialist President Ricardo Lagos won in 2000, the former Health and Defense Minister delivered a stinging blow to the fascist apparatus that installed Hitlerian dictator Gen. Augusto Pinochet Ugarte in power in the savage Sept. 11, 1973 military coup that overthrew and murdered democratically elected President Salvador Allende Gossens.

This is *not* just a Chilean issue. The synarchist financier interests in the United States trying to ram through the confirmation of Nazi Judge Samuel Alito as an Associate Justice of the Supreme Court are also smarting from the defeat. Why? Pinochet was their creation. The Anglo-Dutch financial networks represented by former Secretary of State George Shultz, Lazard Frères agent Felix Rohatyn, and former Secretary of State Henry Kissinger, orchestrated Chile's 1973 coup, and then oversaw Pinochet's Operation Cóndor torture and assassination apparatus to enforce the fascist free-market economic policy imposed by Shultz's University of Chicago-trained economists.

The philosophy that guided them in Chile was that of Adolf Hitler's "Crown Jurist" Carl Schmitt, whose legal doctrine Sam Alito and his Federalist Society allies hope to make hegemonic on the U.S. Supreme Court, should Alito be confirmed. Schmitt was the man who wrote the decrees that allowed Hitler to take power in 1933 under the "emergency conditions" following the Reichstag fire.

Jaime Guzmán Errázuriz, a Carl Schmitt follower who played a pivotal role in the Pinochet junta as the dictator's legal advisor, used Schmitt's doctrine to justify the coup and impose a 17-year reign of barbarism and terror on the Chilean population. This "Catholic" ideologue tore up Chile's 1925 Constitution, just as the Francisco Franco he so admired tore up Spain's 1931 Constitution, and argued that the "communist threat" represented by Allende justified everything—extreme violence, torture, and murder.

The 1980 Constitution he authored was a prime example of Schmittian sophistry. All Constitutional rights were abolished. It imposed a "protected democracy" whose guardians were the military, and it incorporated the anti-nation-state precepts of such fascist economists as Friedrich von Hayek.



bacheletpresidente.cl

*Michelle Bachelet's election as President delivered a stinging defeat to the synarchist global apparatus behind former dictator Pinochet.*

Sebastián Piñera was this crowd's preferred candidate, and his defeat reflects a changing environment in Chile, and in Washington. His attempts to pass himself off as a "Christian humanist" concerned about the plight of the poor, didn't sell with the Chilean people. The billionaire was supported by the Independent Democratic Union (UDI), the party founded in 1983 by Jaime Guzmán as the civilian support apparatus for the Pinochet dictatorship.

Although many Chileans aren't convinced that Michelle Bachelet will break with the free-market economic model that has immiserated the country since 1973, including under President Ricardo Lagos, they weren't about to elect someone so explicitly identified with the horror and economic plundering of the dictatorship, no matter how much Piñera tried to distance himself from Pinochet.

Philosophically a follower of the free-market "Chicago Boys," despite his Harvard degrees, Piñera made his fortune under Pinochet's reign, as did his brother José. As Pinochet's Labor Minister from 1978-81, José privatized Chile's pension system and "reformed" labor and union rights out of existence. It was even rumored that had Sebastián been elected, he would have brought José in as his Finance Minister.

Many Ibero-American leaders have figured out that the Cheney apparatus in Washington has been considerably weakened in the recent period, thanks to the aggressive mobilization led by statesman Lyndon LaRouche and his Youth Movement (LYM) to expose the Hitlerian drive against the U.S. Constitution. In the days leading up to the Jan. 15 elections, *EIR* bombarded Chile with a press release and article reporting on the U.S. release of the "Children of Satan IV" pamphlet, documenting the Schmitt-Rohatyn role in Chile's 1973 coup, and Piñera's ties to this same apparatus. From Washington, and from the LYM's Argentine chapter, the material reached tens of thousands of Chilean trade unionists, media, government officials, students, and universities.

The fact that Chilean authorities are accelerating their legal offensive against the 90-year old General Pinochet, his family, and coterie of fascist hangers-on, reflects this shifting

environment. On Jan. 23, Judge Carlos Cerda indicted the entirety of the Pinochet clan, as well as a daughter-in-law, and General Pinochet's former financial adviser and former personal secretary, on charges of tax fraud and falsification of documents related to the nearly \$30 million they stashed away in Washington D.C.'s Riggs Bank and many other foreign bank accounts and offshore financial havens during General Pinochet's rule.

Perhaps more significant was the earlier Jan. 19 ruling by the Santiago Appeals Court, which voted to strip Augusto Pinochet of his immunity from prosecution for the torture and disappearances of detainees at the Villa Grimaldi detention center, a concentration camp run by former Nazi SS officer and pedophile Paul Schaefer, in conjunction with Pinochet's secret police, the DINA. Only in the last few years has evidence been uncovered documenting the full scope of inhuman practices carried out by Schaefer and the DINA at Villa Grimaldi, paralleling "Nazi doctor" experimentation on detainees with toxic drugs. Often victims injected with these poisons were then thrown out of airplanes into the ocean, where they became officially "disappeared."

To date, General Pinochet has been stripped of his immunity in four separate cases involving both financial crimes and human rights violations. But the Jan. 19 ruling is the first time that the former dictator has been directly charged with torture and disappearances. The ruling carries special meaning for Michelle Bachelet. In 1975, a year after her father, Air Force General Alberto Bachelet Martínez, was arrested and tortured to death on Pinochet's orders, the 24-year-old medical student and her mother, Angela Jeria, were detained and tortured at Villa Grimaldi before being forced into exile in Australia and East Germany.

Bachelet rarely speaks, publicly or privately, of her own physical and psychological torture at Villa Grimaldi, or of her father's jailing and months-long torture which led to his death from cardiac arrest. But on the night of her Jan. 15 electoral victory, she paused during the celebration to emotionally state: "There is someone who at this moment would be very proud tonight. That man is my father, Alberto Bachelet Martínez, a General of the Chilean Air Force." An opponent of Pinochet, General Bachelet was in charge of food distribution and rationing in the Allende government.

## A Replica of Hitler

The Villa Grimaldi operation epitomizes the Nazi character of the Pinochet regime, put in place by an international synarchist cabal whose reign of terror extended beyond Chile to Argentina, Uruguay, Paraguay, Bolivia, and Brazil—all ruled by dictatorships during the 1970s and 1980s. The DINA and Operation Cóndor, officially founded in 1975, included as their advisors first-generation Nazi war criminals who had been smuggled out of Europe after World War II by the Anglophile faction of the U.S. intelligence community, led by

James Jesus Angleton and Allen Dulles.

It was with good reason that Chilean military authorities told a U.S. defense attaché that they thought Pinochet's DINA was becoming a "modern day Gestapo." The Nazi "rat lines" that Dulles and Angleton organized into South America brought former SS officers and war criminals into several Southern Cone nations to help oversee the extermination of tens of thousands of "subversives" under the aegis of Operation Cóndor.

Operation Cóndor was part of a global neofascist apparatus whose European spawn included Operation Gladio and its attendant "strategy of tension." Thus, Italian fascist Stefano Delle Chiaie, who was a key cog in the Gladio machinery, also worked for Gen. Manuel Contreras, head of Pinochet's DINA. Delle Chiaie later hooked up with Nazi war criminal Klaus Barbie, the "butcher of Lyon," who made his way to Bolivia through the "rat lines," to orchestrate the 1980 coup that put the notorious "cocaine colonels" into power.

The same Anglo-Dutch banking forces that financed Hitler's rise to power, operated in Chile through such entities as the International Telephone and Telegraph Co. (ITT), the global telecommunications cartel with a long history of collaboration with the Nazis. ITT, on whose board sat Lazard Frères agent Felix Rohatyn, threw around millions of dollars in the late 1960s to prevent Allende's election; and when that failed, they financed a military coup against him, always in close coordination with the CIA and National Security Adviser Henry Kissinger. The fascist Fatherland and Freedom paramilitary group, to which Jaime Guzmán belonged in the early 1970s, received sizable contributions from the CIA to assist in destabilizing the Allende government.

In an October 2000 interview with the Public Broadcasting System, George Shultz lied that the military overthrew Allende because he was "governmentalizing the Chilean system" instead of giving free rein to "the market." When those poor military guys didn't know what to do about the economy, Shultz insisted, "some people who came to be called Chicago Boys" because they had studied economics at the University of Chicago, "raised their hands and said 'we know what to do.'" Those fine young men had nothing to do with the "unnecessarily brutal things" that the military "no doubt" had to do, Shultz asserted.

Not exactly. The DINA's Subdirector of the Interior also supervised an Economics Section, charged with monitoring "the activities of public and private business/economic interests to ensure compliance with government economic policy." That is, the military fascists *enforced* the same brutal austerity in Chile that Hitler's Finance Minister Hjalmar Schacht had imposed on Germany. The same was true in neighboring dictatorships.

Shultz gushed in his autobiography that the Chicago Boys' free-market policies restored "prosperity to the economy," and since the mid-1980s, he and his allied banking

factions and international media outlets have held up Chile as a magnificent economic “miracle” worthy of emulation everywhere, including in the United States.

A miracle for whom? Jaime Guzmán’s “protective democracy” trampled on the General Welfare of the population, but allowed Chile’s most powerful economic groups and Pinochet’s friends and family to steal a conservatively estimated \$1 billion from the state in the privatization orgy of the 1970s and 1980s, which saw hundreds of profitable companies sold off for a song to friends of the Chicago Boys who were running the economy. At the same time, unbridled deregulation savagely destroyed any previously existing protections for the labor force, while unemployment soared in the context of ever more brutal austerity.

By 1989, the average worker was worse off than in 1970, and the poverty rate stood at 41.2%. In 1970, the poorest 40% of the population consumed a daily diet of 2,019 calories. By 1980, this had fallen to 1,751 calories, and by 1990, to 1,629 calories. Between 1972 and 1988, the percentage of Chileans without adequate housing increased from 27% to 40%. There was an inordinate growth of slums in the area around Santiago, as well as in other major cities, where the poor largely ate at soup kitchens. In 1975, the unemployment rate stood at 18.7%, and registered an *average* of 15.7% over the following ten years.

Outgoing President Ricardo Lagos claims that he has made great strides in reducing poverty in Chile, a fact that is refuted by many thoughtful Chilean patriots who point to the millions of citizens still living in misery.

Employment today is precarious, at best. A growing number of workers rely on outsourcing, short-term contracts, or “self-employment” that offer no benefits or social protections whatsoever. Thirty-two years after the Chicago Boys began to impose their Schachtian austerity, only 1.5% of the Chilean population consumes a nutritious diet, for example. According to a 2005 study released by the University of Chile’s Nutrition School, a majority of the population doesn’t have access to fruits, vegetables, or dairy products.

## What Now?

Despite the existence of political tendencies that admired and tried to emulate the American System of political economy in Chile at various points in its history, for a good part of the period since its independence, it has served as an outpost for British and European financier interests. In the 1879-81 War of the Pacific, the British used it to smash American System factions in Peru, and to act on its behalf in subsequent decades to provoke border conflicts and wars to advance their financial and geopolitical interests. Chile’s seizure of Bolivian territory during the War of the Pacific, left a legacy of enmity between those two that has been repeatedly exploited by synarchists internationally, and inside both countries.

The question now is whether President Bachelet will break with the synarchist model that has gripped Chile for decades. She has vowed to lead a government that will “aid all those that have fallen behind,” and ensure greater social justice and inclusiveness. She has placed particular emphasis on reforming the privatized pension system imposed by Jaime Guzmán’s friend José Piñera that robbed millions of any chance of a decent pension. Senator-elect Guido Girardi of the Party for Democracy (PPD), a member of Bachelet’s Concertación coalition, has already fired the first salvos in this fight with an attack on the “white collar criminals” behind the private pension funds, the AFPs.

The conditions for Bachelet to make the break exist (see accompanying article). Argentina’s leadership in opposing the International Monetary Fund’s neoliberal austerity dictates, and its teaming up with Brazil in accelerating the drive for regional integration and cooperation on industrialization and economic independence, provide the framework in which Chile can act positively.

The first signs of that came when President Ricardo Lagos took the unprecedented step of attending the Jan. 22 inauguration of Bolivian President Evo Morales in neighboring Bolivia, and met with Morales at his home. This is the first time any Chilean President has attended a Bolivian Presidential inauguration since 1955. Lagos insisted that dialogue, not conflict, must define the two governments’ relationship, and raised the possibility of restoring diplomatic relations that have been suspended since 1978.

Bachelet echoed these sentiments in an interview with Spain’s *El País* published Jan. 23, but took them further. “I’m a woman who understands that a policy of integration and cooperation is best, because we have common challenges and can work together to deal with each country’s challenges. . . .” She emphasized that she doesn’t buy the “caricatures” of many Ibero-American leaders, a reference to Morales and Venezuela’s Hugo Chávez, underscoring that the region is witnessing a “process of change in which new leaders have significant support, something very important in Bolivia’s case. . . . We have all learned that we don’t want to look at the world with the eyes of the Cold War.” Stereotypes don’t interest me, she said.

Such talk worries synarchist bankers, like those of Lazard Frères, who dictate policy to *The Washington Post*. A very nervous *Post* editorialized Jan. 17 that Bachelet will have nothing to do with the “populist statism” associated with Evo Morales, and by implication Argentina’s Néstor Kirchner. Chile’s new President “doesn’t question the foundations of her country’s growing prosperity,” the *Post* hopefully argued, “which are the very free trade, foreign investment and free markets that elsewhere in the region are demonized as ‘neoliberalism.’” Why are the region’s elites so slow “to absorb the lessons of Chile’s success?” the *Post* complained.

Maybe they’ve had enough of such “success.”

# Negotiations with China, Russia Offer Way Out of Iran Crisis

by Michele Steinberg

Expressing agreement with the statements of Lyndon LaRouche, that Russia's offer to provide enriched uranium fuel for Iran's nuclear power reactors is an acceptable course of action, a retired former U.S. Cabinet official told *EIR*, however, that he is very concerned that the United States is not doing everything that is possible to work with Russia and China to find a diplomatic solution for the Iran nuclear issue. Much more is possible, he warned.

Indeed, since Jan. 10, when Iran implemented its decision to restart nuclear fuel research, and had seals removed from its facilities in Natanz, the crisis heated up, with war threats coming from Britain's Tony Blair, the Dick Cheney-controlled Bush Administration, and Jabotinskyite circles in Israel, all rushing to go to the UN Security Council, to demand sanctions, which could then be used as a stepping stone to war action.

Such insanity from London and Washington is actually the *cause* for the war danger. A war that would have no end, warned LaRouche on Jan. 11, at his international webcast in Washington, D.C. Replying to a question about Iran's sovereign right to nuclear power, he said, "The essential problem we're facing is the insanity of the United States and Britain . . . threatening war. We are creating an incentive for nations to desire to have intimidating weapons. . . . Iran requires nuclear energy for development of its economy. They can have nuclear power, but they can't have nuclear weapons. . . . But the problem is that Iran is under the threat of attack. Otherwise, what the Russians offered, and I think what the Europeans would tend to agree to, would be a perfectly rational solution. . . ."

Despite the instability of Iran under President Ahmadinejad, LaRouche said, "There's no rush! . . . Continue the negotiations. Say in principle they have a right to know the technology, they have a right. But we *have come to the end of the use of nuclear weapons!*"

## Solution Emerges

Then, on Jan. 26, in the midst of a diplomatic foray by Ali Larijani, the secretary of Iran's Supreme National Security Council, to Russia and China, where he held extensive high-level discussions about Iran's nuclear program, he signalled

approval of the Russian plan, similar to what LaRouche had proposed earlier. It is a solution that the United States must join, not sabotage.

As of Jan. 26, a major policy statement by Russian President Vladimir Putin, statements by Larijani that Iran is open to the Russian proposal, and China's opposition to UN sanctions, and expressed interest in the Russian proposal, have turned the situation in a new direction.

On Jan. 25, speaking in Moscow, Larijani told his hosts that "Our view of this offer is positive, and we are trying to bring the positions of the sides closer." He suggested it would take time for all details to be hammered out. Larijani and Russian Security Council head Igor Ivanov issued a joint statement, saying the nuclear issue had to be solved diplomatically, through the International Atomic Energy Agency (IAEA).

UN Secretary General Kofi Annan welcomed the Russia-Iran talks, and expressed confidence that the Iran matter would not be rushed into the Security Council as Washington and London are insisting. IAEA chief Mohammed ElBaradei had told him, Annan said, that a report on Iran would be ready for the scheduled March 6 meeting.

Then, in China, where Larijani held talks with Foreign Minister Li Zhaoxing and met State Councillor Tang Jiaxuan, he again welcomed the Russian proposal and said Iran wanted further discussions about it. After the meeting, Chinese Foreign Ministry spokesman Kong Quan told a news conference, "We think the Russian proposal is a good attempt to break this stalemate," adding that "we oppose impulsively using sanctions or threats of sanctions to solve problems."

But the biggest development came from President Putin.

On Jan. 26, after the visit by Larijani, and signs that Iran was open to the Russian offer to set up a joint enrichment plant in Russia, Putin launched a new initiative, going beyond Iran.

In a statement circulated by the Kremlin press service, he said Russia considered security as a "multi-layered notion that requires a precisely verified comprehensive approach." He then declared Russia's intentions to expand security cooperation with the format of the Eurasian Economic Community (EuroAsEC), and the "promotion of the peaceful use of

atomic energy is one of the priorities in that area.” He cited deals with Kazakhstan and Uzbekistan as examples of benefits from such cooperation.

There is a growing demand for “reliable energy supplies,” Putin said. “It is important,” he went on, “to create a prototype of the global infrastructure that will ensure equal access to atomic energy for all the countries interested in it. I would like to stress in this connection that observance of nuclear non-proliferation regimes will be crucial in that sphere.

“Creation of a system of international centers providing nuclear fuel cycle services, including uranium enrichment, under strict control of the International Atomic Energy Agency (IAEA), and offering non-discriminatory access, must be a key element of that infrastructure. Russia has made public its initiative in that field and is ready to build the first such center on its territory.

“Quite naturally, this will require innovative technologies for nuclear reactors and fuel cycles of a new generation. These problems can only be solved in the conditions of broad international cooperation, and we will offer precisely this approach to the Group of Eight Industrialized Nations during our terms of rotating presidency there, and to all our partners in the civilian use of atomic energy.”

## Warnings of War Danger

But, no such sanity has yet come from Washington. Indeed, even as Iraq continued to be a bloody mess, with no end in sight, the controller of the entire Bush Administration—former Secretary of State George P. Shultz—issued a call for regime change in Iran, with draconian sanctions that would stop all foreign direct investment into Iran, a blockade of all crucial refined petroleum products, and a drive to put Iran’s two leaders on trial: Supreme Leader Ali Khamenei for torture and murder of his population, and President Mahmoud Ahmadinejad for violation of the Genocide Treaty in his call for the elimination of the state of Israel.

Joining him in this policy statement, issued through the reincarnated Cold War’s Committee on the Present Danger, were some of the worst neo-conservative fanatics, including James Woolsey, a member of Secretary of Defense Donald Rumsfeld’s Defense Policy Board, and Frank Gaffney, a chickenhawk. It is the same crowd that called for “regime change” in Iraq in 1997, and hopes to do it again, this time in Iran.

But leading military intelligence sources are warning that any military action by the United States, Israel, or NATO, will bring disaster, and possible general war.

For example, Edward Atkeson, the former Deputy Chief of Staff of the U.S. Army in Europe, warned in an interview with the German newspaper *Kölner Stadt-Anzeiger* that a U.S. war against Iran would be a “deadly serious matter.” (Quotes are back-translated from the German.)

Asked about France’s threat to use atomic weapons against Iran, he dismissed this as political rhetoric. “But it

would be quite a different matter, if the United States were to make such a threat. That would be a deadly serious matter.”

An air attack on Iran would not succeed, he said. It could not destroy all sites relevant to nuclear weapons production. “We would simply create a tremendous uproar, and strengthen the opposition to U.S. policies in Iran, in the Middle East, and indeed in many parts of the world.” To supplement air strikes with special forces deployments would not increase the chances of success, but only increase the risks, he said. “Whoever wants to militarily keep Iran from gaining atomic weapons, will have to be prepared for a war. We are talking about a real, great war, not an intervention *à la* Kosovo.”

Although the first strike might be a surprise, a war would not be over in an hour. U.S. forces right across the border in Iraq and Afghanistan, “would be absolutely insufficient for a war against Iran. The U.S.A. would have to introduce the draft, since the forces would have to be secured not only for war against Iran, but also to guarantee the security of South Korea and Taiwan. NATO would not be of any great help to us. It might provide a bit of support for targeted attacks, but as long as Iran did not strike first, I do not see any readiness on the part of the Europeans to fight millions of Iranians in their own country.”

According to highly informed Washington experts on the Persian Gulf, if the United States bombs Iran’s nuclear installations in its campaign to stop Iran’s nuclear program, the result is likely to be a massive increase in U.S. fatalities in Iraq—as many as 1,000 Americans a week. The simple reason—the U.S. has depended almost entirely on the Iraqi Shi’ites to back its occupation, and to constitute the so-called “new Iraq Army,” and new Iraqi police forces. If the U.S. attacks Tehran, say these experts, the Iraqi Shi’ites will join the resistance against the United States.

## Responses From Iran and Iraq’s Shi’ites

Whether this estimate is accurate or not, the fact is that Iraq’s Shi’ites say they will defend Iran. On Jan. 22, during a visit to Tehran, Iraq’s young firebrand Shi’ite cleric, Moqtada al-Sadr, told reporters that his Mahdi Army would support its neighbor, Iran, if it is attacked by any foreign force, i.e., the United States. Al-Sadr met top officials, including Larjani.

Adding to this war of words, is a series of terrorist bombings in the ethnically Arab Ahvaz province of Iran, the latest of which, on Jan. 25, killed eight people. President Ahmadinejad blamed Britain for the bombings. “The trace of Iraq’s occupiers in the Ahvaz crimes are clear,” he said.

Iranian Foreign Minister Manouchehr Mottaki added: “We have information showing that British soldiers in Iraq equip these elements and draw up their missions. . . . It is not necessary to point out that the members of this group are based in London,” referring to the Popular Democratic Front of Ahvazi Arabs.

# Philippines Is Dragged Along In Cheney's Drive for Fascism

by Mike Billington

These quotes come from different sides of the world, yet represent very similar circumstances:

- “There would be no system of checks and balances as we now have. . . . In other words, they can do pretty much what they want, and there is nothing people can do to stop them, except mount a revolution or a coup d'état.” (*Philippine Inquirer* journalist Neal Cruz, speaking about President Arroyo's plan for “Charter Change,” to replace the Philippine's Presidential system with a parliamentary system.)

- “Charter-change will kill the present system of checks and balances by killing the Senate.” (Philippines House of Representatives Minority Leader Francis Escudero)

- “This curtails the investigative powers of Congress in flagrant derogation of the constitutional principle of separation of powers and checks and balances.” (Sen. Aquilino Pimentel, Opposition Leader in the Philippines Senate, speaking of a Presidential Executive Order forbidding government or military officials from testifying before the Senate without the President's permission.)

- “I am concerned that, if confirmed, this nominee will further erode the checks and balances that have protected our constitutional rights for more than 200 years. . . . The liberties and rights that define us as Americans, and the system of checks and balances that serve to preserve them, should not be sacrificed to threats of terrorism or to the expanded power of the government.” (U.S. Sen. Patrick Leahy [D-Vt.], speaking against the confirmation of Judge Samuel Alito to the U.S. Supreme Court.)

- “A State of War is not a blank check for the President when it

comes to the rights of the nation's citizens.” (Retiring Supreme Court Justice Sandra Day O'Connor, in a ruling countering the Bush Administration assertion of rights above the Constitution in the “war on terror.”)

- “This [unitary executive] policy has already been adopted wholesale by the Bush/Cheney Administration with their promotion of NSA spying, torture, and other abhorrent policies typical of dictatorships. This has brought our nation to the brink of totalitarian rule.” (From a document opposing the Alito confirmation, signed by 19 elected U.S. officials at the state and local level, published in *Roll Call*, a paper for the Congress, on Jan. 24.)

The last three quotes, from U.S. statesmen and jurists, describe the current criminal campaign of Vice President



Michael Rey Baniquet-OPS-NIB Photo

*“The Gang of Three [shown here, left to right]—House Speaker José de Venecia, President Gloria Macapagal-Arroyo, and former President Fidel Ramos. These three are behaving as if they own the Philippines . . . like a crime syndicate no different from the Mafia or Ali Baba and the 40 Thieves. They want a new constitution and a parliamentary government, and they're going to have them even if 80 million Filipinos don't want them.”—Philippines Inquirer journalist Neal H. Cruz, Jan. 18.*



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*In 1982, the IMF issued a scathing attack on the government of President Ferdinand Marcos (inset), denouncing its 11 major industrial and agricultural development programs, including especially the first nuclear power station to be built in Southeast Asia (shown here).*

Dick Cheney and President George Bush to dispose of the Constitution under the Nazi-era doctrine known as the “unitary executive,” as pronounced by Cheney, Bush, and their Supreme Court nominee Samuel Alito. The doctrine asserts that, in a national crisis, the executive cannot be restrained by Congress, the courts, the Constitution, or any law whatsoever, in order for the President to “defend the people.”

The first three quotes, similar in nature to those from the United States, come from Filipino statesmen and journalists, where, *under the direction of exactly the same individuals who are running the drive for fascism in Washington*, there is a campaign to eliminate the Presidential System altogether, replacing it with a parliamentary system, without the checks and balances of the Presidential system.

President Gloria Macapagal-Arroyo, who is not the architect of this scheme, but has been coerced to promote it to save her Administration from otherwise certain doom, does not hide the fact that the problem to be eliminated is the pesky opposition from the Senate—precisely the checks and balances which are designed to prevent totalitarianism. “The problem of the Presidential form,” said Arroyo, “is that the legislature and the executive are separate, so they are conflicting by nature. In the parliamentary form of government, they are one. The decision of the executive presumes already that the legislative is part of the decision-making, therefore



the laws will move faster.”

While the battle over the drive for fascism is now raging in the U.S. Senate, so also the Philippine Senate is thus far refusing to buckle under to strong-arm tactics from the local spokesmen for Cheney and his neo-conservative cabal. The coming days and weeks are crucial.

## **The Role of the Philippines in Asia**

The Philippines has a critical mission in the future course of events in Asia, as the scope of global development shifts from a Eurocentric world to one focussed on Eurasia as a whole. The Philippines is the gateway to Asia from the Americas, in more than a geopolitical sense. Its colonial history under Spain, and as a U.S. territory after the Spanish-American War and the Philippine-U.S. War, until its independence in 1946, is certainly the source of many deep-rooted problems for the nation, but also created a unique cultural characteristic as a complex interface of East and West. The United States holds a special responsibility to the Philippines. The commitment of President Franklin Roosevelt to make the Philippines a model for the de-colonization of all Asia from European colonial powers after World War II, was subsequently sabotaged, but nonetheless succeeded to a significant extent in turning the island nation into a developing nation with great potential—until 1986.

In 1982, U.S. Secretary of State George Shultz, his deputy Paul Wolfowitz, and his close ally Henry Kissinger implemented a policy, for what is today known as “regime change,” in the Philippines. Philippines President Ferdinand Marcos had been tolerated during the U.S. colonial war against Indochina, since the United States depended on the U.S. military bases at Clark Airfield and Subic Bay. But after the defeat of the United States in Vietnam, the international financial institutions, headed by the International Monetary Fund and its American sponsors, demanded the subservience of developing nations to a global economic order, to be enforced through economic conditionalities on debt. In 1982, the IMF issued a scathing attack on the Marcos government, naming its 11 major industrial and agricultural development programs, including especially the first nuclear power station to be built in Southeast Asia, as wasteful government spending. The IMF and the World Bank demanded that the public investments in these projects be diverted to debt payments, and particularly condemned the creation of state industries. Such independence from the “free market” neo-colonial cabal in New York and London, and especially the potential independence from the oil cartels through nuclear power development, was not to be tolerated.



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*Some of the “warm bodies” that were brought out to cover for the U.S.-backed military coup by Fidel Ramos, which downed the Marcos government in February 1986.*

The murder of opposition figure Benigno Aquino in 1983 by factions in the military, although never officially solved, was nonetheless blamed on President Marcos, and used to rally popular support against him, especially from the younger generation in Manila. By 1985, U.S. Ambassador to the Philippines Stephen Bosworth was meeting for several hours daily with Armed Forces Chief of Staff Gen. Fidel Ramos, a fact which was exposed by *EIR* in August of that year. Despite denials from both the United States and from their asset General Ramos, events proved that *EIR* had been deadly accurate. Ramos led a U.S.-sponsored military takeover of the Marcos government in February 1986, under cover of mass demonstrations—“warm bodies” brought out to protest by a complicit media, the Catholic Church, and the U.S.-linked business community. The military coup was declared internationally to have come from “people’s power.”

The IMF was quickly given a free hand in the Philippines, and the rape of the nation’s economy and people by the international financial cartels has accelerated ever since. In fact, the Philippines became the model for IMF- and U.S.-sponsored “regime change” and economic looting throughout the world, based on a generation of Filipinos who believed, *and believe still to this day*, that the U.S.-controlled military coup which stole their national sovereignty *was a victory of the “people” against a tyrant.*

### **The Basis for Ramos’s Power**

Ramos no longer enjoys wide popularity within the Philippines, but still wields tremendous power. He did not take direct power after the 1986 coup, but served as the power behind the throne for President Cory Aquino, the wife of the slain opposition leader. Cory Aquino had been turned into a symbol for the “people’s power” campaign. As President, she followed IMF dictates—her first act in office was to close down the fully constructed nuclear power plant. Ramos only took over himself in the 1992 election. After manipulating the Congress to grant him emergency powers to deal with recurrent energy blackouts, Ramos did not do the obvious—

open up the nuclear plant—but rather brought in Enron and like-minded oil and energy corporations, signing energy contracts which dumped all the currency risk (and other risks) upon the Philippines government, ensuring the near-term bankruptcy of the nation.

When the 1997-98 “Asian financial crisis” forced massive devaluation of the Philippine peso (a result of speculation by the burgeoning new hedge fund network created by U.S. Federal Reserve Chairman Alan Greenspan’s hyperinflationary monetary policies), the Philippines was left holding huge, unpayable dollar-denominated debts, largely due to Ramos’s corrupt energy deals.

In this environment, a populist candidate, Joseph Estrada, a former movie star turned politician, swept the 1998 Presidential elections against Ramos’s chosen candidate, House Speaker José de Venecia. While not free of the corrupting influence of the international financial institutions, Estrada was clearly not under oligarchical control, and the Ramos machine went to work. Using charges of corruption (which, like the WMD in Iraq, proved to be fanciful constructions of those running the operation), a replay of the “people’s power” hoax of 1986 was manufactured. An impeachment trial ensued, and when it became clear that Estrada would not be convicted, the opposition walked out, called out the “warm bodies” to the streets, and called in the marines. Ramos, after getting the all-clear from Washington, ordered the military to repeat the 1986 takeover process. On Jan. 20, 2001, *the very day of George W. Bush’s inauguration as President of the United States*, Estrada was deposed by the military.

The puppet President this time was the current President, Gloria Macapagal-Arroyo, who had been Vice President under Estrada. Like Cory Aquino before her, Arroyo’s first act was to pay obeisance to the international energy cartels, in this case by privatizing the national energy sector.

The Arroyo regime has been utter chaos, with the economy spinning out of control, IMF-dictated austerity, huge foreign borrowings at “junk bond” interest rates, courtesy of the Anglo-American rating agencies such as Standard and Poor’s (better known as “No-Standards and Whores”). More than half the population lives in poverty, with one in six experiencing hunger in this once-developing nation.

Add to this the exposure of vast vote fraud in the Arroyo re-election campaign in 2004—her conversations with election officials discussing the rigging of the vote were illegally taped by military intelligence, and released to the public. The President’s popularity, and her capacity to govern, have fallen through the floor.

In stepped Ramos, with his old pal, Speaker de Venecia, to use the crisis as a convenient opportunity to impose a dictatorship. President Arroyo faced a collapse of her government in July of 2005, as former President Cory Aquino turned against her, and ten of her Cabinet members resigned, demanding her resignation; Ramos and de Venecia ran to her



EIRNS/Michael Billington

*More than half the population of the Philippines lives in poverty, with one in six experiencing hunger in this once-developing nation. A shanty town in Manila, 2001, is shown here.*

support—on one condition! She must demand a Constituent Assembly or a Constitutional Convention to write a new Constitution to change to a parliamentary system. Arroyo conceded.

Ramos has been toying with Arroyo ever since, demanding that she step down as President next year (rather than 2010 when her term ends) or he would withdraw his support, then rescinding the threat; meeting with representatives of former Presidents Estrada and Aquino to discuss a united front to oust Arroyo, then denying it; and so on, nearly every day. Several different military factions loyal to Ramos have openly declared their intentions for a military coup, while Ramos coyly declares that he's no longer affiliated with them. President Arroyo, meanwhile, is hanging by a string from Ramos's middle finger. Conrado de Quiros, an editorial writer for the leading establishment newspaper *The Inquirer*, described Ramos's toying with Arroyo in a Jan. 16 article: "What's wrong with this picture? It is not that Ramos can't seem to make up his mind on when Arroyo should resign. What's wrong with the picture is that, quite simply, who the hell is Ramos to be telling anyone what to do? Who the hell is Ramos to be deciding what kind of government we should have and who should head it? Who the hell is Ramos to be declaring the future of this country?"

A good point—but what's *really* wrong with this picture, is that the answer is as clear as day, but the Filipino "people's power generation" doesn't want to face it. Ramos has power because he speaks for his American controllers, who are now waging pre-emptive wars on nations of their choosing, openly pushing for fascism in the United States, and controlling the flow of international credit according to political conditionali-

ties. The reason Filipinos don't want to admit that, is that they don't want to admit that their heroic "people's power" revolution of 1986 was a foreign-dictated military coup which cost them their national sovereignty.

### The Senate

In the United States, the Senate is the institution in which the defense of the Constitution against the threatened dictatorship is being fought out. In the Philippines also, the Senate, including those who are otherwise supporters of President Arroyo, has thus far refused to accept the Ramos/de Venecia/Arroyo demand to form a Constitutional Convention. Ramos is threatening to "reinterpret" the clear meaning of the Constitution in such a way as to claim that Senate agreement is not required to hold such a Constitutional Convention.

To stop this push for dictatorship, patriots of the nation, both friend and foe of President Arroyo, must unite against the charter change. Even more important, they must express their full support for those in the United States who are leading the fight to defeat the fascist drive in Washington. If fascism comes to the United States, there will be little hope in Manila.

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# Peretz Campaign Offers Israel A Turning Point on Economic Policy

*Professor Gutwein teaches the Social and Economic History of the Jewish People at Haifa University in Israel. He is among a group of academics and intellectuals who have been supporters of Labor Party Chairman Amir Peretz. Dean Andromidas interviewed him on Jan. 16.*

**EIR:** Amir Peretz has defined the socio-economic question as the key issue of the campaign leading up to the Israeli elections on March 28. Could you please comment on the significance of this?

**Gutwein:** To understand the Israeli political situation, one has to understand that during the last two or three decades, Israel has undergone a massive privatization revolution, which has dramatically changed the entire fabric and structure of Israeli society. However, the ramifications of this privatization, and the growing gap between rich and poor, and the undermining of the Israeli welfare state,<sup>1</sup> have never been issues in the Israeli political discourse or in any prior election campaign. Amir Peretz is trying to put to the fore the problem that many Israelis can't express for themselves: the fact that they feel insecure, that they feel their future is gloomy, and that the coming generation has fewer opportunities than the generation of their parents.

The questions of what is wrong in terms of economic policy, the future of the welfare state, the future of the education system, the pension system, the health system, all of which have been the target of massive attack by the neo-liberal forces in Israel through privatization, have never been openly discussed before, because the same neo-liberal forces have dominated the Israeli agenda. Peretz is trying to change the agenda, to get into the Israeli discourse concepts that have been long forgotten.

One has to understand that in Israel, contrary to the European countries, the social democracy has almost vanished. This is one of the peculiarities of the Israeli political system: We have not had, for the last 20 years, a real social democratic

party. So what Peretz is trying to do is not simply have campaign slogans, or try to manipulate public opinion during the election campaign. What he is trying to do is to use this campaign to establish, or renew, a social democracy in Israel, in three ways:

One, is to renew the social democratic vocabulary.

Two, is to make the real issues clear to the Israeli people: that there is a very great connection between social security and the future of the territories and so on.

And three, to make people translate their interest in their social security into votes in the elections.

**EIR:** Could you describe how these changes have affected Israeli society?

**Gutwein:** Let me begin with one more point about the Israeli political structure; then I will move on to the particulars of the situation. One has to understand that since the early '80s, Israel has been governed by what is in effect a national unity government. That is to say, there has been ongoing cooperation between the left and right in pursuing this policy of privatization, even when they have not been in the same ruling coalition government. What is the basis of this national unity government? They agree to disagree on the political questions, such as the Palestinian conflict, but they all agree on privatization. Privatization for the last two decades has been the common denominator between the Israel left and right.

Now this phenomenon called the Kadima party is just taking this concept of a national unity government, and transforming it into a party. They were able to do this because, practically, there was no left in Israel. On the contrary, the "left" in Israel has represented the middle classes and the upper middle classes, and has been an active player in privatization. In Israel the left means mainly holding dovish political views; it has nothing to do with socialism.

For example, the privatization of the Israeli educational system has been the project of the Meretz party, one of the more leftist parties.

## 'An Inequality Revolution'

Now as to particulars. Take, for example, the income gap. In the mid '70s Israel was one of the Western or industrialized countries with the lowest income gap: It was among the most egalitarian in terms of income distribution. Now, since the

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1. In Israeli parlance, the term "welfare state" has a somewhat different meaning than in the United States. It signifies that the government takes responsibility for the general welfare—including health, education, social welfare, social security, and unemployment and disability benefits—whether through state institutions directly, or in partnership with the private sector. See discussion below—ed.



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Israel's "privatization revolution" has resulted in one out of four citizens living below the poverty line, while the gap between rich and poor is one of the greatest in the industrialized world.

early '90s, Israel has become one of the more non-egalitarian countries, with its income gap among the highest among the Western countries. We are speaking about an *inequality revolution* in Israel, over the past 20 years.

What was the mechanism that made the dramatic change? The main mechanism was the privatization.

The turn came about in 1977, when the Likud party came into power, led by Menachem Begin, who became the Israeli embodiment of Thatcherism. In '77, almost four years before Thatcher came into power in Britain, Begin pursued a Thatcherite policy, using privatization as his main strategy for building the power of the right. But Begin had a big problem in the beginning, because of the structure of the Israeli economy. Israel in the 1970s, unlike Great Britain or Europe, did not have the private economic power, the private money, that could buy the privatized industries or services, because the entire Israeli economy was dominated by the public sector.

To deal with this, the Begin government pursued a dual policy, with two complementary goals. One was to create the private sector, and then to begin the privatization of the public sector. So, the first step they took was to degrade the public sector by cutting the government budget for services, such as education, health, etc. After their budgets were cut, they became inefficient, leading to demands that they be privatized, because here was the proof that something that is public can't work, and that only private services will work.

However, since we didn't have the private money that could buy and operate such services, Israel made its own unique "contribution" to the privatization, by creating the so-called sectors to provide the degraded public services. What do I mean by sectors? The services were turned over to various groups, mainly marked by their religious beliefs, such as the

ultra-orthodox, or to special interest groups, who then began to provide these services. This is the reason for the creation of a party like Shas, which represents the Sephardim ultra-orthodox community, or the parties representing Russian immigrants. In this way the Israeli universal welfare state was broken.

So the idea is clear. First, the universal welfare state was broken by degrading it through budget cuts. Then it was supplemented by creating the sectors that became suppliers of services, thereby eroding the Israel welfare state, paving the way for the second phase, whereby the services were privatized, and bought up by private money.

Take, for example, the education system. The last Education Minister, Limor Livnat, a member of the Likud, published an official report called the Dovrat Report. Dovrat was chairman of the commission that drafted the report. This report laid out how to privatize the Israeli education system. Until now, privatization of the education system had been anarchic, but now this Dovrat Report gave the outline of a new privatized system of education.

Let's take the health system. After the health system was degraded, it was replaced with the so-called national health security plan. But it provides only the minimum health insurance, so you are asked to buy complementary health insurance, and Israelis are now divided according to what health insurance they have. If you have to go to the hospital to have an examination or a test, you will get it in a shorter time if you have good health insurance, and you will get it in a much longer time if you don't have additional insurance.

Another example is the labor market. The power or the strength of the trade unions was effectively broken, and more and more Israelis are employed now under a system of contractors: a system whereby workers haven't any prospects of job security or even of getting a pension.

So if you take health, if you take the labor market, if you take education, the privatization has turned social services into commodities. And as commodities on the market, you can buy them—or you can't buy them if you haven't the money.

In the last 20 years, there was a very interesting process. The middle classes cried that these services should be privatized, because it would make them much more efficient; and as a middle class, they would be in a better position to buy what was needed. But actually, as these services were privatized, they found themselves in a much less secure position. It took 20 years for large segments of the middle class to understand this problem! They supported the process that, at the end of the day, undermined their own situation.

This was the situation when Amir Peretz came into the picture. He began to be an effective political power five years ago, when he and certain other people pointed to this inner contradiction of the Israeli middle classes: that they support processes that in the end would undermine them. I think little by little, people are beginning to understand this problem.

This is the first success of Peretz: putting this point into the epicenter of Israeli discourse. He used the Histadrut [labor federation] and the trade unions, which were very effective in putting this point into the center of discourse.

**EIR:** You have a real problem, now that one of the architects of this whole process, Stanley Fischer, is the governor of your central bank.

**Gutwein:** The problem is not new. If you look at Stanley Fischer's predecessors, including Jacob Frenkel and David Klein, all of them were committed to neo-liberal economic policies, and were very effective in bringing about this privatization. Fischer is only one link in the chain; he is very effective, but nothing new.

**EIR:** One of Fischer's Israeli sponsors is Benjamin Netanyahu.

**Gutwein:** This brings up a very interesting point. An analysis of the current Israeli political system reveals a very interesting phenomenon. The political system has been broken across the full spectrum, from left to right. All the old parties have been broken. The Labor Party voted for Peretz, and the party's old mythological leader, Shimon Peres, moved over to the new Kadima party. The Likud has been split by Sharon, who then created the Kadima, leaving Netanyahu in the Likud. The Shaenui party, a sort of neo-liberal centrist party, was broken last week, when its two top leaders left the party. So the entire Israeli party system has been broken in the aftermath of this privatization revolution, rearranged according to the coordinates of the new neo-liberal system.

On the one side, Peretz is representing the interests of the lower and the middle classes, calling for a more social democratic agenda, to recreate the Israeli welfare state. On the right wing, you have Netanyahu—that is, right-wing in terms of both economic and political policies—and then, you have the Kadima party in between.

The Kadima party, for the time being, has the support of something like a third of the Israeli population. For these Israelis, this party represents the illusion that on one hand, things can go on as they are, but somehow they will become better. This is the great fantasy of many Israelis whose living standards have been eroded, who are very tired of this growing insecurity. They believe that somehow Sharon will be the father of the nation, and will take care of their needs; that the pull-out from Gaza will solve the problems of Israeli society. But this is an illusion. They don't realize that Sharon, his Kadima party, and his successor Ehud Olmert, represent the very neo-liberal forces responsible for their insecurity. So now there is a struggle between their illusions and their interests. The question is how fast will Israelis, especially the middle classes, give priority to their interests over their illusions. This is the main issue in this election campaign.

You can't explain this huge support for Kadima, unless you understand that they are getting the support of all the



*Labor Party Chairman Amir Peretz is putting onto the Israeli political agenda a challenge to the disastrous, decades-long policy of privatization.*

Israeli media. This is amazing! All the Israeli media wants them to be in power, because they know they will be very friendly to business. It is a very crude example of how private money, or big money, or the oligarch system, you name it, uses its domination of the media—three great newspapers and two of the three television channels—to make very overt propaganda in support of Kadima, precisely because they know it will go on with privatization and diminishing the welfare state.

**EIR:** How do you connect this with the peace process? Lyndon LaRouche has proposed a peace based on regional economic development, organized around regional infrastructure, especially transportation and the introduction of new water resources, through developing desalination projects utilizing the newer and safe nuclear power technologies.

**Gutwein:** Now there are two phases. In the long term, of course, the solution to the Middle East conflict is dependent on the economic development of the entire region. These plans go back to the beginning of the 20th Century, when the Middle East was one political unit under the domination of the Ottoman Empire. At that time, the railroads went from one end of the Middle East to the other. But the fragmentation of the region after World War I has made this idea of rejuvenating the Middle East through regional economic development very difficult.

But, speaking about the current situation, the problem is that in every one of the countries in the region, you have very strong powers who are trying to block the idea of achieving peace through a regional solution. Let's take the Israeli-Palestinian conflict as an example: It is obvious that the prospect of a very bright future can bring hope to people who are living now under very severe conditions. The question is not only how do we portray the future, but how do we make people

believe that this future is possible. This is only possible by elevating their situation in the very short term.

Take, for example, the Israeli situation. Everyone talks about the settlements as being at the center of the Israeli-Palestinian conflict, which of course they are; but let's for a moment look at the settlement question from a socio-economic point of view. Then you will see something very interesting: As the welfare state was eroded and broken in sovereign Israel west of the Green Line [the 1949 Armistice Line between Israel and the West Bank—ed.], it was rebuilt in the settlements east of the Green Line. That is to say, the phenomenon of the settlements was not only a political phenomenon, but a socio-economic phenomenon as well. Those who were the victims of the privatization in Israel west of the Green Line, were told they could find a solution to their hardships by simply emigrating to the settlements east of the Green Line. Now this is the real answer to where the Israeli right got its strength: by this sort of an agreement between the lower classes and the right, where, as the welfare state in sovereign Israel was degraded, they were given a substitute in the territories. So if you want the people to understand that pulling out of the territories is a real option, you must give them hope, in terms of rebuilding the welfare state.

Shimon Peres was the prophet of the new Middle East. He said the fantastic new Middle East, with its economic development, would create new opportunities; yet he couldn't get any support from Israelis, because most of them saw that their near future was insecure.

I believe that if you want to get the people to believe in a real solution in the Middle East through a regional approach, a regional economic approach, you have to very quickly re-establish their economic and social security by means of rebuilding the welfare state. So I think it is very complementary, on the one hand to speak about rebuilding the welfare state, and on the other hand thinking about a regional development perspective.

**EIR:** I think you identified one of the main reasons why a regional approach to peace has been blocked up until now, by this neo-liberal economic policy.

**Gutwein:** And it will continue to be blocked. Take the situation in the Palestinian territories. What is the power of Hamas? Why is it strengthening all the time? And why all these fundamentalist movements throughout the region strengthening all the time? They are giving to the masses, the lower classes, what the state doesn't give them. What is the power of Islam? Islam has become an institution that is now supplying social services.

The same thing is true in Israel, with the creation of the sectors as I mentioned a few minutes ago, which is closely connected with the strengthening of the power of the Israeli right. That is to say, while the state fails to supply the social services, all sorts of religious and ethnic groups step in to give these services. All these sectors see the universal welfare state

as their enemy. So there is a very clear common interest between the ethnic and religious groups, who want to break the welfare state and the right wing in Israel.

Now, if you want to break the bondage between these groups and the right, you have to offer an alternative, which is the welfare state.

**EIR:** What is your programmatic solution?

**Gutwein:** Let me just say what the general assumption is. I don't think, contrary to the neo-liberal belief, that there is any contradiction between economic growth and social equality. On the contrary, a more equal distribution of income gives a larger segment of society purchasing power, and getting much more purchasing power to a larger segment of society is one of the engines of economic growth. I think this is a basic idea that gives economic justification to the welfare state. We are not speaking about being nice to people with hardships; the idea of the welfare state is a very solid economic concept of having more people taking part in the economic process.

Let's look at every level of rehabilitating the welfare state. Take, for example, education. I think the state has to take responsibility for creating a competent education system where, for example, the classes are less than 25 students. In Israeli schools, classes are as large as 40 students with one teacher, which is an impossible situation. Israeli students spend no more than four hours a day in school. Your children will only get more hours if you have money to buy more hours. If you don't have money, you can't buy them. A much greater education budget will create what we now call human capital, which will create the taxpayers of the future, who will repay all their expenses.

Now take the health system. I think most Israelis from the middle classes who have to buy private insurance, will prefer to pay more for better national health security than to rely on insurance that they are not sure of anyway. What I am trying to say, is that there is no problem in rehabilitating these services, because you have the money: The money is there.

If you go to the housing problem, in Israel it is the custom to buy an apartment, not rent one. I think the government should be very active in the mortgage market. What is happen-

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*Stanley Fischer, former director of the International Monetary Fund, emigrated to Israel to become governor of the Bank of Israel. Invited by Likud Chairman Benjamin Netanyahu, he is a staunch backer of the privatization policy.*

ing nowadays is that fewer and fewer Israelis can afford to get mortgages, because they have insecure jobs, and therefore the banks are not ready to give them mortgages. If you can't get a mortgage, you can't buy an apartment. Housing is one of the engines of economic growth everywhere; and one of the sectors in Israel that is now in recession is the housing sector. So, the state should be more involved in the mortgage market to allow people to buy flats.

Let's take another sector, the labor market. I think that the raising of the minimum wage is imperative, thereby on the one hand giving the lower classes more purchasing power, and on the other hand creating an incentive for employers and industry to invest in new technology. It will prove to be very crucial, in terms of regenerating the Israeli economy.

Another sector one should look at is the pension system, which has been privatized. These funds are a very important source of capital for the economy, but I think we have to make these funds much more secure than they are now, because they are dependent on the stock exchange. When the state privatized the pension system, the state abandoned its responsibility for the stability of these funds. These funds have to be made much more secure in order to ensure the security of the pension system into the future. I think the management of these funds has to be rethought, and I think here is one area where public management and responsibility can prove itself to be very efficient in terms of economic growth.

On the plan of economic development, I think more money should be invested in the development of Israel's municipalities. I think we have a big problem in the area of municipal development. In the very short term, this would be an effective power in creating jobs and so on.

I believe that implementing these reforms will make

Israelis much more confident in themselves and feel much more secure, more ready, to deal with the Israeli-Palestinian problem. Once they are more confident and secure, they will not need the settlements as a sort of solution to their problems, so the power of the fantasy of going on with the settlement enterprise in the territories will lose its power, and that will be the beginning of a much more rational solution to the Israeli-Palestinian problem.

If we understand the strength of re-establishing the Israeli welfare state, we have to see what is happening in the labor market in the territories. The development of the Palestinian territories is very crucial to the welfare of Israelis, because if the Palestinians don't have work in the territories, they will try to find it in Israel, where they are competing in the same labor market as Israelis. This leads to the reduction of salaries, and of course the Israeli lower classes will always see them as competitors; this is translated into economic competition and ethnic and national rivalry. So I believe Israel should be interested in the economic development of the Palestinian territories, not only for itself, but I think the simultaneous development of the territories and Israel—because we are speaking effectively here of the same market—will ease the socio-economic situation in the region, and will make it much more feasible to get to a rational solution to this conflict.

So from my point of view, addressing the socio-economic question is not only important in itself, but is a means to a solution to the Israeli-Palestinian conflict.

**EIR:** What you are describing for Israel has a parallel in the United States. There too, the privatization, globalization, outsourcing, have created similar problems. There is also a parallel in your solution as well in the policy outlook of Franklin Delano Roosevelt in dealing with the Depression.

**Gutwein:** If you mention FDR, the New Deal, and a Keynesian policy, I think Peretz has a very strong Keynesian element in his thinking, and I think the model of the New Deal, as an example of how to turn around an economy going through a deep recession or depression, to make it work again, is very important, and this is very strong in his thinking and in those around him.

That's why I think the Peretz campaign is so important, because in Israel we are in the middle of a process: We are standing at a point where the ramifications of the privatization revolution are becoming clearer and clearer. All these things I have been saying for the last ten years—and they were just as true ten years ago as they are today—but now I think we have here a turning point, because the entire Israeli socio-economic and political picture has been changed, and this change has led to creation of these new parties, and therefore the overall trend of the political scene makes it much more possible to think about these changes in much clearer terms than ever before. The fact is that change is much more possible now than it was before.

# One in Four Israelis Is Living in Poverty

by Dean Andromidas

The Israeli government's National Insurance Institute (NII) on Jan. 23 released a devastating report on the increase in poverty over the five years that Ariel Sharon has been Prime Minister. Between 2000 and 2005, the poverty rate among Israel's 6 million citizens increased from one in five people to one in four, as half a million people sank below the poverty line. The population increased by 8%, but the poor increased by 45%, going from 1,088,100 in 2000 to nearly 1.6 million in 2005. The percentage of the population that is poor increased from 18.8% in 2000 to 23.6% in 2005.

Among children, the percentage living in poverty was 25.2% in 2000, and in 2005 it increased to no less than 33.2%: an increase from 482,000 in 2000 to 714,000 in 2005. According to the NII's director general, Dr. Yigal-Ben Shalom, increased poverty among children is due to the 45% cut in government allowances to families with children since 2001.

The number of working poor increased over the same period from 30.8% to 33.6%. In 2000 the number of poor families was 305,000, representing 17.6% of Israeli families. By 2005 that increased to 394,000, and for the first time ever crossed the 20% line, to 20.3%. The number of poor families headed by a person who holds a job increased from 38% to 41%.

Speaking at the annual Herzliya Conference—Jan. 21-24—Prof. Rafi Melnick gave a presentation showing that out of a selection of 30 countries, Israel has one of the highest poverty rates and one of the most unequal income distributions. The countries include members of the Organization of Economic Cooperation and Development (OECD)—mostly the United States and Europe—as well as Iran, Egypt, Turkey, Syria, and Jordan. Israel ranks 28th in poverty, only above Iran and Syria, and 27th on the income distribution scale, above the United States, Iran, and Turkey. The study uses the World Bank definitions of poverty rates as the proportion of residents who earn less than half the median income of that country.

Professor Melnick is a former chief economist of the Bank of Israel and dean of the Herzliya Interdisciplinary Center, a private university and temple of neo-liberal free market ideology, which is financed in part by American conservative Republican Ronald Lauder.

Incredibly, the Israeli Finance Ministry issued a statement claiming that the NII report was a “positive” sign. “The government's economic policies in recent years are starting to

have an effect,” the ministry's spokesman told the Jan. 24 *Ha'aretz* daily.

The governor of the Bank of Israel, Stanley Fischer, told the Herzliya Conference that Israel's poor will just have to wait for better times, since “we will not be able to deal with poverty for more than a year or two.” At that time, he claims, the government's austerity policies supposedly will lead to economic growth. Fischer, a former director of the International Monetary Fund, only recently emigrated to Israel in order to become head of the Bank of Israel. In the 1980s he played an instrumental role as a special representative to then-U.S. Secretary of State George Shultz, to advise the Israeli government on implementing privatization. Since becoming head of the bank, Fischer has worked closely with Likud party leader Benjamin “Bibi” Netanyahu, who as Finance Minister in the last government implemented one of the most brutal austerity policies in Israel's history. It was on the urging of Netanyahu, that Fischer decided to come to Israel.

## Labor Party Speaks Out

Labor Party Chairman Amir Peretz has put the social-economic disaster at the center of his campaign for Prime Minister in the March 28 elections. Speaking at the Labor Party convention on Jan. 23, Peretz declared, “If you believe that it's possible to exist on 3,300 shekels a month, vote for [acting Prime Minister Ehud] Olmert. Whoever thinks otherwise, vote for Labor.” Other Labor Party leaders also attacked the government for being responsible for the devastating increase in poverty, as revealed in the NII's report.

Labor Member of the Knesset Yuli Tamir said that the poverty report “proves that the Bibi-Olmert government has abandoned one-fourth of the public, pushing it beneath the poverty line. The government's policy is turning Israel into a third world nation, where the middle class practically does not exist.”

“In the name of growth,” Labor MK Ophir Pines-Paz said, “Kadima and Likud are managing an opaque economic policy that is crushing Israeli society and hurting the middle class, many of whose members are approaching the poverty line.”

Labor activist and attorney Yuval Elbashan, who helped to draft Peretz's socio-economic policy, told Israel Radio, “The social policy that was spearheaded by the rightist government in the last five years has pushed the middle class under the poverty line. This is an intentional policy to make Israel attractive to investors by creating a cheap workforce. This is not a natural disaster or the hand of fate or anything else, except for a policy intended to make the rich richer and increase the poverty of the poor.”

“The empty bellies of hungry Israeli children are full of resentment that could blow up in our faces further down the road,” said Labor Party MK Rabbi Michael Melchior. “The Treasury, which counts on the fact that these helpless children do not have the vote and cannot make their voices heard, continues to ignore their suffering.”

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## Editorial

# *The World Cannot Survive Without Nuclear Energy*

Developments around the globe—from Europe to Asia and even the United States—indicate that leading policymakers are finally beginning to realize that the world will not survive without a revival of nuclear power. One of the most insane characteristics of the last 30 years of post-industrialism is about to be abandoned.

The LaRouche political movement has long insisted that a renaissance of nuclear fission, and then fusion, is an indispensable aspect of a world economic recovery. We welcome this development, and intend to do everything possible to move it along.

The most dramatic shift has been taking place in Western Europe, where formerly anti-nuclear trade unionists and politicians are now saying that they have to rethink their positions. British and German trade unionists are now talking about the need to expand the nuclear industry, in the face of both the dramatic increase in price of fossil fuels, and the instability of the supply.

Similarly, a turn toward nuclear has begun to be discerned in the United States, where licensing procedures are being simplified, and leading politicians are beginning to realize that “energy independence” means, among other things, going back to nuclear power.

But the proof of the pudding, so to speak, lies in Asia, where the preponderance of the world’s population lives, energy-starved, in abject poverty. Economist LaRouche has insisted that particularly India and China will never overcome their destitution unless they move with an integrated 50-year development plan, which places great emphasis on nuclear power. They are not generating enough real income for their people, to bring 70-80 percent of the population out of poverty.

The situation will get even worse, of course, if the Synarchist bankers behind Cheney et al. succeed in starting their new series of wars in the Persian Gulf region, which will even more massively disrupt oil supplies.

India, LaRouche has indicated, has tremendous capability for launching a massive program to build high-temperature gas-cooled reactors, using its vast supply of thorium. By building small plants, in the range of

120-200 megawatts, India is capable of producing the pressure vessels on a mass scale. Such a production program can provide the power to transform the rural areas of India by providing a lot of cheap power.

China is somewhat different, LaRouche noted, but still nuclear energy is vital. Hydropower, such as that which will be produced by the Three Gorges Dam, cannot be expected to solve the nation’s energy needs. Rather, power from nuclear energy should be used to help China with its water management problems, since that country has an urgent need for moving water from one part of the country to another.

LaRouche’s conception for the international nuclear revival emphasizes the importance of using thorium fuel (which makes it very difficult to make bombs), and proliferating small reactors, which would minimize the loss of energy through transportation of power. Oil reserves should be used for petrochemicals, and gas should be primarily used locally. In the future, the use of nuclear power will facilitate the shift to hydrogen-based chemical fuels.

The big picture is this: we are going to have to change the global economic reality over the next two generations. We are going to have to build new cities, deal with rural poverty, and create high-speed transportation and development corridors throughout the Eurasian region, the Americas, and Africa. We need to focus on the long-term benefits of investments in the physical economy, not the short-term opportunism of today’s leading “economic experts.” This 50-year approach is the truly revolutionary way to transform the world economy.

To carry out this perspective, the first step is to free the United States from Synarchist banker control, because the United States is the only nation capable of reorganizing the world monetary system. The second step is to initiate cooperation between the U.S., Europe, Russia, and China, especially on the full range of infrastructure development that is required. But all of such development depends upon ample, cheap, economical power—and that means nuclear energy.

Go nuclear—now!