

# **THE GLOBALIZATION GOSPEL**

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\$11: The amount that developing countries pay in debt service charges for every \$1 that they receive in aid".

"30,000: The number of Indonesian employees of Nike whose combined yearly wages for making athletic shoes is less than basketball star Michael Jordan is paid to advertise them.

TIME June 1, 1998

“The U.S. and the IMF made the (Asian) crisis worse than it had to be by pounding hard on Asia’s economies, riling the markets. They tried to use the crisis to push a reform agenda. The problem was they misunderstood the real source of the crisis, and things blew up in their hands”.

*Jeffrey Sachs, director,  
Institute for International Development  
Harvard University*

“Yet through a process of global economic integration pressed on the world’s people by the G7 governments, the Bretton Woods institutions - the World Bank, International Monetary Fund (IMF), and General Agreement of Tariffs and Trade (GATT) - and transnational corporations, the sovereign right and ability of the world’s people to protect their economic, social, cultural, and environmental interests against the growing power of transnational capital is being seriously and rapidly eroded  
.....

The path of deepening international debt, structural adjustment, market deregulation, free trade, and the monopolization of intellectual property-rights that currently dominates policy thought and action is a path to collective self-destruction, not to sustainable development”.

*International NGO Forum  
United Nations Conference on Environment and Development  
Rio de Janeiro, Brazil - June 21 1992*

## INTRODUCTION

As the tools of the information age revolution were synergized with global finance, a new infofinancial global economy was created. Thus the world has a productive economy that produces goods and services and an infofinancial economy which is both speculative and non-productive but nevertheless has the ability to extract wealth from the productive economy. The gospel of the infofinancial speculative extractive economy is globalization. The sovereignty of nation states was weakened as nations willingly or unwillingly are now requested to operate within that new global

economic order. Many nations are trying to resist the unconditional surrender to their economic destiny to the new rules of the infofinancial globalization. The forces of this new global economic order are scary. One financier - George Soros speculated against the Sterling Pound in 1992 and made 2 billion dollars within a week or so. The Bank of England could not raise enough resources to stop George Soros! This occurred at a time everybody thought the fundamentals of the British economy were in order. Likewise, an attack was subsequently waged on the French Franc and likewise the speculators won. South East Asians consider that speculators and the infofinancial economy had more to do in their recent economic turmoils than any real changes in their economies. After all, such changes do not occur overnight. But speculative "investors" hot money can in a matter of seconds, using auto-piloted computers, withdraw billions of their money, thus causing a crash in a stock market, a devaluation of a currency and an economical crisis. A handful of such global financiers can raise more money at a moment's notice than several of the world's central banks combined.

In 1997 and in this infofinancial global economy, basketball star Michael Jordan, reportedly made more money all alone, by endorsing Nike shoes on TV than all the approximately 30,000 employees of all the Indonesian factories that make these shoes.

Many countries and nation-states which played the rules exactly as they were requested to, such as Mexico, and Thailand, were praised for their economic "fundamentals" but suddenly found themselves in trouble for reasons beyond their national borders. Transnational elites in many developing countries are fascinated by the world of "globalization" without fully realizing its implications on their national economy and without even taking the necessary steps to maximize its benefits or defend against its evils. The wages of the majority of people even in the most prosperous economy of the world i.e. the United States is at best stagnating, while the very few are accumulating all the wealth generated by the economic growth. One percent of Americans own 48% of the wealth in America, whereas 80% of Americans owned less than 8%. The estimated wealth of Bill Gates of \$50 billion at the time of this writing equals the total household wealth of an American city of more than 500,000 people. Yet New York and other major American cities have an army of homeless people, wandering through its streets.

One Swedish family, the Wallenburgs control the assets of corporations with annual sales of over \$100 billion which exceeds the combined sales revenues of all the oil producing countries in the middle east.

Our concern about the dangers of globalization was best expressed by a pillar of the global capitalist order, who expressed the same concern we are showing in this book.

Peter Sutherland is Chairman of British Petroleum, Chairman of the Overseas Development Council and Chairman and Managing Director of Goldman Sachs International. Few people have better credentials to belong to the existing on-going globalization order. Yet he expressed his serious concerns about globalization and advocated summits to discuss its challenges. This book is an attempt to tackle these same issues. Sutherland wrote: "We..... believe that globalization raises some of the most important issues facing mankind to-day. We believe that these are challenges that must be addressed at the highest level and on a continuing basis..... The foremost challenge of globalization is to ensure that its fruits extend to all countries". Obviously this is not the case now, as many developing countries, with little or no real comparative advantages to compete globally are suffering, specially those which opened their economies to free trade without appropriately raising competitiveness or even realizing the real implications of their actions. Sutherland adds "Most forecasts say that economic growth in the developed world will continue to slow, and that expanding markets in developing countries are needed to ensure that living standards continue to rise". Therefore economic growth of developing countries with a free-trade global system is a prerequisite for the growth of the developed nations. i.e. globalization is to serve that purpose. Therefore productive economies will be encouraged to develop in these developing countries and the extractive global financial economy will every now and then extract part of this wealth through highly manipulative and speculative techniques. "The second challenge of globalization is to allay the fear that the growth it brings is inherently destabilizing. The Asian crisis.... amplified this fear. The third challenge of globalization is to address the concern in wealthier nations that international competition will harm living standards...

The fourth challenge of globalization is to tackle the problems complicated by expanded trade and investment... There is no doubt that globalization of trade and investment has in some way weakened the independence of national governments and made life less predictable for many individuals". (TIME - Feb., 2, 1998)

Pope John Paul II expressed in his January 1998 visit to Cuba in no unclear terms that he considers that the extremes of wealth inequality among nations as well as individuals within the same nation as an indicator of the malfunctioning and excesses of global capitalism.

Communism proved a failure. But is Mafia capitalism that superseded it any better? Nikolay Lychev, the head of a Russian school near Pakhomovo, like most Russians, don't think so. "In the past (Russians) lived like slaves (under communism). Now they look back on their slavery with delight". The command economy that was inefficiently run by the state is now run by the Mafia and robber baron capitalists. Potanin, a 36 years old in (1997) built an empire of industrial companies, banks, and media groups equal to nearly 10% of Russia's gross domestic product. Five of Russia's new "business" people along with the energy czars control half of Russian industrial wealth! How this transfer of wealth was done in less than 7 years? This new Russian "Democracy" is unable to pay pensioners or even the army their salaries and pensions and proud Russian professional women are turning into prostitutes by plane loads throughout all western and non western "democracies". All these side effects are the gifts of the new world order.

The impediment for global economy during the cold war was the Soviet Union. After its collapse, and with the availability of better management and communications, the decade of the 1990's witnessed the transformation of the global vision from stage one (the grand area) to stage two (the whole globe). And the global financial and political instruments for global governance were in place (IMF, WB and U.N).

It may be interesting to note that:

- Through the financial instruments i.e. the IMF and global finance - Mexico while a full member of NAFTA, was requested in 1995 to deposit all the revenues from its oil at the Federal Reserve Bank of New York as collateral to IMF bailout! Mexican oil was nationalized in 1939.
- Through the political instrument cover i.e. the U.N Iraq also had to deposit all the revenues from its oil sales at western financial institutions mostly in New York. Also, Iraq was first to nationalize its oil in the middle east.

What a co-incidence! Or was it a co-incidence?

Seeing whole economies and regions going into turmoils and sharp economic cycles, and seeing banks, national companies and businesses going bankrupt overnight or in few days is scary. Out of 282 companies listed at the Jakarta stock market that were viable and well by early 1998, only 22 were judged viable after the collapse of the national currency, and all of this occurred in few weeks. The owners and stock holders of the 260 companies found themselves in a fix overnight. To them at least, and to a majority of Southeast Asian nations, it was a global financial "casino" that gambled with their economies without their consent. The "casino" bills were sent to them, as they see it, via the IMF. Knowing more about the "madness" of this global extractive financial economy for my own strategic planning became a necessity not a nicity. Making my findings in this book form to alert and debate the dangers of this globalization and "financial casino" was an afterthought that was elevated to become a mission. In many cultures, including mine, gambling is a sin. The global financial system as it stands to-day is full of sins.

In this global infofinancialism only one brand of capitalism is now promoted: the Wall Street Washington - consensus version. Previously tolerated state interventions as in the Japanese model are no longer acceptable.

The ethics of this global system were well described by M.I.T. economics professor Lester C. Thurow: "In the most rigorous expressions of capitalistic ethics, crime is simply another economic

activity that happens to have a high price (jail) if one is caught. There is nothing that one (ought) not to do. Duties and obligations don't exist - only market transactions exist". This is then an anything - goes system. Also, in such a system you can buy police protection if you have money. Too bad if you don't. In a June, 29, 1998 article by the New York Times titled: "Rent - a - cop" the article stated: "Over the last four years, New York has sold off its public radio station, tried to sell its hospitals, ceded to business improvement districts the upkeep of large swaths of Manhattan and handed over central park to be run by a group of private citizens.

Now, it is introducing Rent - A - Cop. For \$27 an hour plus handling charges, it is possible to put on order in with the city's Police Department for a uniformed officer - complete with bullet proof vest and the power of arrest - to keep the peace at your private affair. To sweeten the deal, the city will even pick up liability costs: if your rented officer happens to apply excessive force or wrench his back, taxpayers will pickup the tab.... Officially, the explanation for the program is much the same as for other privatization schemes....".

This book attempts to scrutinize and debate the various excesses of this anything - goes and cops - for - rent system, including many of its conventional wisdoms now promoted by infofinancialism's media. May be we can all find that they are not wisdom after all, and search for a more equitable system that will transform the world from a "land of desire" to a "land of comfort". And the final decision must be ours. A system that balances between the needs of the body and the soul must be sought. And in the global village such a debate must be global.

"Only recently, everybody agreed that absolute free trade in capital is as desirable as free trade in goods. Now Treasury Secretary Robert Rubin, in particular, has vowed to overhaul the global financial (architecture) that allowed East Asia to go down so quickly. What that means, in plain English, is that he is trying to figure out a way to contain the damage that hot money can do.

The next time, that is. You will forgive the millions of newly destitute East Asians if they view the process with what may politely be called mixed emotions. (How interesting) a senior Southeast Asian policy-maker said last week, when told that Washington was rethinking the benefits of free capital movement. (We have millions of people unemployed, foreigners crawling over the remains of our companies at rock-bottom prices, riots, and governments collapsing everywhere. And now you're telling us it was all a big mistake. Thanks.)

The bitterness is understandable. But it doesn't detract from the urgency of the task. Better now to hope that Robert Rubin & Co. have more luck putting the nuclear genie of the 90's back in the bottle than Robert Oppenheimer ever did. Because the next time it goes off, Hello, Tokyo? It could take the rest of us down with it"

*Newsweek*, June 1, 1998

## *Chapter 1* **THE WORLD THAT CAN SAY NO**

The last quarter of the nineteenth-century witnessed the acceleration of the industrial revolution; just like the last quarter of the twentieth century witnessed the acceleration of the information revolution.

The industrial revolution was accelerated by new technical innovations that also altered management techniques and capabilities. When the information age revolution arrived it was hardly recognized. Some called it the post-industrial age revolution, until its new tools the computers and telecommunications took hold and the term information revolution was coined.

Revolutions are never easy to manage or to predict. They take their own course, and release their own forces. More often than not revolutions never end where the "revolutionaries" wanted them to end and in many instances they turn against them. In the 19th century's industrial revolution deep economic, social and political consequences occurred. Most were beyond anticipation. Two depressions in the last quarter of the 19th century occurred. Labor unrest and people's dissatisfaction from both political parties were among the symptoms of the industrial revolution. In order to increase

demand, the “owners” of power then created a whole new culture of consumerism, and the values of society were changed in a way desire was unleashed to promote consumption. America turned imperial at the end of that century. The after-effects of the industrial revolution in the twentieth century were two world wars.

Between them two depressions occurred. A relatively mild one that occurred in the early 1920’s, and the greatest depression of them all that started in 1929.

It took “government forces,” not “market forces” to get the United States out of the Great Depression and that was not even enough. By 1939, the United States economy was hardly the size of what it was a decade earlier in 1929. It took a second world war and careful planning by the elite of the United States to avoid repetition of the business cycles in its severe “depressions” form after the end of WW2. After all, devastated Europe, Japan and much of the previous WW2 operations theater laid in ruins and it needed the after-war production capacity of the United States for reconstruction. If the United States industrial revolution really started about 1850, then its after-shocks continued for over 100 years. Communism, as we advocate in this book, was only one of those aftershocks and a 70 year-old reminder that 500-year-old capitalism is not delivering its promise. Both capitalism and communism are two faces to materialism; they only disagreed on wealth distribution.

The information revolution of the twentieth century may have started silently in the late 1950’s when white collar workers equalled blue collar workers for the first time in history, and when the space age of the telecommunication technical innovations were launched. Again, as in the last revolution of the 19th century, the existence of new technologies created new potentials for new management capabilities that made the unthinkable to become possible.

In order to prevent recurrence of great depressions, elite planners in the United States decided that for the United States economy to operate without or with minimum stress, it needed more room and bigger area. They proposed a global economy vision to be implemented after WW2 and created the needed financial institutions (World Bank, International Monetary Fund) and the needed political institution (United Nations) for the management of this global vision. These bigger areas were needed as markets and sources of raw materials.

The new technological advances made global control easier and these new technologies of the information age, accelerated the materialization of the globalization vision. No longer was permanent military occupation and colonization necessary to achieve the objectives of extracting other peoples wealth and natural resources. It could now be done via highly intelligent management methods. Transnationalists across all countries became allies due to interconnection and similarity of their interest regardless of nationalities. Transnationalists operate to install transnational agendas over national ones and their loyalties are not national. Rather than having hated foreign troops occupying a country, transnationalists in nation-states are aided to get to power and they become natural allies to the global transnational power structure, many times against their own national interests. Information-age tools, including human and electronic intelligence, are all pooled to assist the owners of the power structures to keep hold of the power under their control.

The information-age revolution of the twentieth century was synergized with new technological tools of computers and telecommunications and another revolution was created. A global finance revolution was aided by the unilateral cancellation (in 1971) of the linkage of dollar with gold (according to the Bretton Woods Agreement) and the creation of new financial instruments by the financiers away from any governmental controls or regulations. Global financiers rough edges were somewhat under self-imposed self-control while communism was still alive. As soon as communism collapsed the crude and rude impassionate nature of global financiers took over.

As the Anglo-American version of capitalism saw itself without competition from communism, it wanted no other form of capitalism to compete with it or stand in its way to achieve its goals. The Japanese model of capitalism incorporated some of the Japanese culture of group predominance over individualism, and accepted full employment within its model. Its financial system operated differently and provided where needed cheap capital to assist full employment. Now, the Anglo-American model in its new infofinancial capitalism form wants none of that, and much of these “special Japanese values” are considered obstructionist to free trade. Even though the Japanese model created a more equitable society with practically no poverty compared to the Anglo-American infofinancial model, Japan model is now under attack savagely. That was also one reason the Korean economy was attacked because it followed the Japanese model. Anglo-American

infofinancial capitalism has no tolerance to competition whether from other brands of capitalism or from other ancient ideologies that may have conceptual differences on economic or social values.

The 20th century information-age revolution and the parallel revolutions it created are wild and may run out of control. If the revolution of the 19th century took 2 depressions in that century, 2 world wars in the 20th century, and 2 depressions between the two wars as aftershocks, what are the aftershocks of this revolution and how will long it continue? Is global capitalism really the model that is worth spreading around the world under different names and via different institutions? What is the alternative and what is the future of economic globalization?

Many serious people around the world began to seriously debate such questions. We don't need another 100 years of aftershocks and global disasters to realize the malfunctioning of the existing system. Among the serious debaters were many sincere highly-qualified scholarly Americans many of whom came from within the American establishment. One such person is Lester C. Thurow who authored the book *The Future Of Capitalism* a New York Times bestseller. Thurow is a professor of economics and former dean of MIT'S Sloan School of Management. The first page in the book quotes a Chinese saying, "We are like a big fish that has been pulled from the water and is flopping wildly to find its way back in. In such a condition the fish never asks where the next flip or flop will bring it. It senses only that its present position is intolerable and that something else must be tried." Indeed, the present position of global finance and its market rule is intolerable and the search for something else is what this book is all about.

Thurow writes, "Homelessness began in the United States in the late 1970's. Initially the rest of the industrial world saw (homelessness) as a phenomenon peculiar to an inadequate American social safety net, but homelessness has now spread throughout the industrial world." One estimate gives the number of homeless in the United States at above 10 million! Anglo-American infofinancialism spearheaded by the U.S.A not only exports its goods to the world but its way of life and life-style. Such a style was created in collaboration with media: The result of this culture is that much of the world is now sharing the same social and economic style of the U.S family. Under the "Economic Viability of the Family" Thurow wrote: "Family structures are disintegrating worldwide. Only Japan defies the trend toward more divorce and more children born out of wedlock. Elsewhere, births among unmarried mothers have soared. Worldwide, from 1960 to 1992, births among unmarried mothers twenty to twenty-four years of age almost doubled and among fifteen to nineteen years of age quadrupled."

The U.S economy is now the only large economy having real growth. The benefits of this growth is mostly directed to the already wealthy individuals. "In America, 32 percent of all men twenty-five to thirty-four years of age earn less than the amount necessary to keep a family of four above the poverty line. Mother has to go to work if the family wants to have an acceptable standard of living. Yet wives are given a double message: Go to work and make the money the family needs but stay at home and take care of the children." In capitalism: "The family is no longer the social welfare system. The state has replaced it and the family will not resume these duties even if the state were to withdraw. In the language of capitalism children have ceased to be (Profit Centers) and have become (Cost Centers). Children still need parents but parents don't need children."

Edward N. Wolff is a professor of economics at New York University and the author of many books. He wrote in his book *Top Heavy* that in 1989 "the top 1 percent of families as ranked by financial wealth owned 48 percent of the total (wealth)". He added "The increase in wealth inequality recorded over the 1983-89 period in the United States is almost unprecedented. The only other period in the twentieth century during which concentration of house hold wealth rose comparably was from 1922 to 1929. Then inequality was buoyed primarily by the excessive increase in stock values, which eventually crashed in 1929, leading to the Great Depression of the 1930's."

In the last quarter of the 19th century, amidst the industrial revolution acceleration, people looked for an alternative to the existing two parties -- the Republicans and Democrats. A third party was created: the People's Party which even had representatives and senators elected to the U.S congress and aspired to elect a president from its midst. Likewise, as the information-age revolution was accelerating, from only a few talk-shows sprang a movement to create a third party. Ross Perot at one point received higher poll ratings than both George Bush and Bill Clinton, except that Perot was not the right man to head such a movement. If the extreme inequality of the 1920's ended up with a Great Depression, are we to wait for one now?! In this book we claim that the business cycles of the

past are still occurring but they are passed through the power of the United States Empire and the globalization process to other countries. The recent Asian markets and economic turmoil may be the result of passing the "cycle" to those economies. About the time communism collapsed, the Japanese Nikkei Index was 38916 in December 1989. It is less than half that by December 1997! Meanwhile, the American Dow Jones went up within that same period from about 2,700 in December 1989 to about 8,000 in December 1997! Is this a zero sum game, where the money lost in one part of the globe is earned at the other side? Is it also coincidental for this to occur at the start of the new world post-communism order?

David C. Korten, in his book *When Corporations Rule the World*, explained that he came from an upper middle class family. He studied music, psychology and earned an MBA and a PhD from Stanford Business School. He served in Vietnam, the office of the secretary of Air Force and the office of the Secretary of Defense. He then joined the faculty of the Harvard University Graduate School of Business. He wanted to serve his country and the world so he joined the Ford Foundation and U.S. Agency for International Development (USAID). So he came from very conservative roots. After touring the world he realized that the "Western scientific vision of a mechanical universe has created a philosophical or conceptual alienation from our own inherent spiritual nature ... The pursuit of spiritual fulfillment has been increasingly displaced by an all-consuming and increasingly self-destructive obsession with the pursuit of money -- a useful but wholly substanceless and intrinsically valueless human artifact."

In our book, we note that the United States is trying to advance its model for the whole world and wonder if such model is what the world needs. Korten noted that "the same policies the United States has been advocating for the world have created a Third World within its own borders as revealed in its growing gap between rich and poor, dependence on foreign debts..... New York, a major center of economic power manifesting all the qualities of a contemporary Third World city -- including wandering armies of the homeless juxtaposed with the extravagant life styles of the rich and famous, incapacitated government, and indiscriminate violence...."

William Leach's book *Land Of Desire* is one of the better books written on history of consumerism and how the culture of desire was created. "In the decades following the civil war, American capitalism began to produce a distinct culture, unconnected to traditional family or community values, to religion in any conventional sense or to political democracy." He added, "The cardinal features of this culture were acquisition and consumption as the means of achieving happiness, the cult of the new; the democratization of desire, and money value as the predominant measure of all value in society." The creation of this culture "was also the consequences of alliances among diverse institutions, non-economic and economic, working together in an interlocking circuit of relationships to reinforce the democratization of desire..."

William Greider, an author of several books, a former assistant managing editor of The Washington Post, wrote several books, two of which were of great value in this research: *Who Will Tell the People*, and *One World Ready or Not*. The first book analyzes the functioning of American political system and government. Greider wrote in his first book, "The blunt message of this book is that American democracy is in much deeper trouble than most people wish to acknowledge. Behind the reassuring facade, the regular election contests and so forth, the substantive meaning of self-government has been hollowed out. What exists behind the formal shell is a systemic breakdown of the shared civic values we call democracy." He added, "At the highest levels of government, the power to decide things has instead gravitated from the many to the few...."

A one percent class (OPC) holds the power of money, the power of media, and the power of marketing politicians and legislators. This class "owns" the global power structure and sits at the top of the new infofinancial system. Through the power of the three M's (Money, Media, Marketing) they dominate the world. The OPC through a handful of their transnational corporations "command an economy" bigger than the economy of the Soviet Union when command economy was branded as evil. Whereas open markets and free-trade are the gospel of today's Anglo-American infofinancialism, almost 50% of U.S. trade is conducted within the closed markets of transnational companies. "According to one scholarly estimate," wrote Greider in *One World*, "more than 40 percent of U.S. exports and nearly 50 percent of its imports are actually goods that travel not in the open market place, but through these intrafirm channels (of transnationals)." Global financiers, therefore, are free to trade as they please within or out of their transnational companies but the more than 99% of people are not

allowed free-trade through their intrafirm channels. Everybody is equal, but some, the transnationals are "more equal" than others!

Multinationals sales volume in 1991 was \$5.2 trillion! In the early 1990's total foreign-exchange trading grew to more than \$1.2 trillion a day, a double of what it was even in 1989. "Despite the staggering volume the financial trading across borders is mostly transferred by a very small community: the world's largest thirty to fifty banks and handful of major brokerages."

The OPC owns the media power. Ben H. Bagdikian is dean emeritus of the Graduate School of Journalism at the University of California at Berkely. When he wrote his first edition of his book "The Media Monopoly" in 1983 the majority of media corporate ownership was in fifty companies. As he wrote his fifth edition in 1997 the number of companies that control U.S media shrank to 10 only. Bagdikian was alarmed even when the number was 50 as he wrote: "when fifty men and women, chiefs of their corporations, control more than half the information and ideas that reach 220 million Americans, it is time for Americans to examine the institutions from which they receive their daily picture of the world".

Through ownership of the "money" and wealth, and through the ownership of the "media" some 30 to 50 banks and 10-50 media corporations dominate the world and make or break politicians and governments. The dominance and combination of information and finance created our "infofinancial" capitalism of today. The power of infofinancialism is scary. If it decided to assault a country or a region, it can unleash incredible forces that equal the neutron bombs that were designed during the cold war. Such bombs can kill all the population of a city or a country but leave its other assets unharmed. After a war, the "winners" can have it all. Now "infofinancial bombs" can be targeted at a nation and can leave it devastated without firing a single shot. Auto-piloted computers can withdraw within seconds billions of global speculators "hot money" leaving that country in ruins, depleting its reserves, toppling its national currency, causing defaults on payments and finally surrendering its economy to "IMF" bailouts. The prescriptions of such bailouts will lead to austerity programs, bankruptcies and multinationals picking the pieces of economy at distressed prices. To enforce international and financial law and order, the IMF and the mighty U.S force are there to oblige.

Our generation witnessed many new changes. "The Cult of the New" was created as one of the pillars of consumerism. A new country, a new culture, new products and people were sold the idea that anything new is better. One has to be selective in accepting the new. Some "new" was better and some were not. The OPC media functions to sell products, people and ideas. It creates "perceptions" and make images and it is called as "image-maker." People are sold images of products, not the real products; images of ideas and legislation and not the real ones; and images of politicians not the real persons of the politicians. Selling images but not facts and real things is misinformation. And "disinformation" is now an industry by itself. Those who travel extensively around the world will notice that economic globalization as defined by infofinancial capitalism is not creating a better world neither in the United States nor elsewhere. In the United States, anxiety is as high as ever as employees are being "down-sized" daily at a time corporate profits are higher than ever. Real wages of low-income groups are now lower than what they were in the 1970's. Europe did not create a new additional job since 1972. Korea is going practically bankrupt and surrendering its economy to the IMF and international financiers. Southeast Asian tigers are becoming cats not necessarily and wholly because of their own problems, but because speculators "judged" their economy negatively, and speculated accordingly. Even mighty Japan was "rumored" asking IMF help and subject to be the next target. In Russia, the communist "Command Economy" was replaced by another "Command Economy" owned by robber baron capitalists and the mafia. West European countries such as France which had a good social safety system, and which was considering American "homelessness" a peculiar feature of the "less-cultured" Americans, now have their 800,000 army of homeless themselves. Pensioners in Moscow as well as the troops did not receive their meager pay for months.

The existing global system is leading the world from one national disaster to another. New forces were unleashed by the global financial revolution and proper institutions and rules are now non-existent to regulate these new forces or control the global financiers that are riding them, thus possibly leading to their own self destruction.

In conclusion:

- Cost-conscious colonialists found the old-style direct colonialism to be getting costlier and more difficult as nationalist liberation movements sprang throughout most of the colonies. The colonialists created a new breed of nationals within their colonies that was prepared to become the ruling class of the newly independent post WW2 nations. The interest of this class was shaped and forged with the interest of the colonialists so that both interests became one. This new class adopted and advanced the colonialists' culture and agenda as its own and thus the age of new colonialism emerged. The management and technological advances allowed remote-control management of the old colonies through the newly-created national ruling class. The hardware of this class was national. The software was colonial and transnational. The "intelligent" institutions of the invisibles intervened during the cold war to debug the software, and in occasions to change the hardware itself. A "network" of transnational "nationals" was created through which transnationalism and infofinancialism are managed to-day.
- The neocolonial order was married to the innovations of technologies and management to produce the post WW2 order.
- Globalization as a process to get people closer together is a great thing. If properly used it can lead people to understand one another and live better in harmony and peace.
- It is infofinancial economic globalization that mixed and synergized the great tools of the information age with its greed to create this economic globalization monster that gave globalization a bad name.
- Infofinancialism became an extractive global economy that through speculation and manipulation extracts other people's wealth. It over-rides the productive economy that produces goods and services. Infofinancial economy is extractive and parasitic, while the productive economy is real but becoming increasingly burdened by the global financial economy.
- The existing transnational and global world order cuts across nationalities and nation-states. Every nation, including the United States, has a similar problem: a one percent of the whole population that owns the power structure of that nation versus the remaining 99% of the population of that same nation. The OPC loyalty is transnational and not national. The OPC in Pakistan or China have closer interest with the OPC in the U.S, or Germany than the remainders of their nationals. Likewise, the interests of the 99% of the population in all countries co-incide for the very same reason.

Shintaro Ishihara authored *The Japan That Can Say No*. He then later co-authored with Malaysian prime minister *The Asia That Can Say No*. Our theme in this book is to see "The World That Can Say No" to infofinancialism. Dr. Mahathir Mohammad was the first to take action against the excesses of speculators. On September, 1, 1998 he announced sweeping exchange controls including a fixed exchange rate and an end to external convertibility of the Malaysian currency. He vowed his country will continue maintaining its tight foreign exchange controls even if it had to stand alone until the international community drew up regulations to protect productive national economies against speculations. Infofinancialism did not view kindly to see nations rebelling against the order it is laboriously trying to impose as the global economic model for the world. It unleashed its visible and it invisible forces against the Malaysian controls decision and Mahathir had to fire his deputy Anwar Ibrahim only one day after he announced his currency controls. Not keeping his mouth shut, probably encouraged by the owners of the infofinancial power structure, Anwar Ibrahim was arrested on Sept 20 1998 on five charges of corruption and another five of sodomy. The global media gave Anwar a verdict of innocence even before his trial began, and wished troublesome Mahathir will just retire and leave the governance of Malaysia to transnationalists as the likes of Anwar. To them Mahathir just doesn't keep his mouth shut and keep instigating the world against their world order. He was the first to say: "They accuse us of practicing cronyism. The co-operation between the U.S. government and Wall Street is cronyism." Few months after that statement, *Business Week* (October 12,1998, p.72) editorialized the same thing: "The Fed-brokered bailout of LTCM (Long-Term Capital Management Co.) shows the sheer hypocrisy of America lecturing Asia about crony capitalism while apparently practicing it at home".

During the November 1998 Asia Pacific Economic Co-operation (APEC) forum in Kuala Lumpur U.S Secretary of State Madeleine Albright challenged the Malaysian authorities and met with the family of Anwar Ibrahim whom she described as a "highly respected leader". Malaysian trade minister Ms. Rafida Aziz said "may be if I go to the United States, I would like to meet Ken Starr". Ken Starr was the special prosecutor investigating the sexual misconduct of U.S president Bill Clinton. Taking the war against the Malaysian prime minister one step further, U.S vice-president Al Gore flagrantly, and in an unprecedented manner, incited Malaysians against their own elected government. In his speech at the APEC meeting in Kuala Lumpur in mid-November 1998, Gore focused not on how to solve the economic ills of Asia & the world, but instead he incited against a legitimate and duly elected government, simply because it adopted measures to protect its economy from the infomercialist speculators. The speech was denounced by many, including Ms Aziza who commented that Gore's speech was "*very disgusting*".

On a commentary by the *Saudi Gazette* (November 20 1998 (p8) - it said "... U.S. vice president Al Gore was guilty of bad taste, not to say bad judgement, when he chose to give a lecture on democracy to democratic Malaysia. To cap it all, he had the bad manners to walk out of the hall after his speech, leaving behind a stunned and affronted audience of Asia Pacific Economic Forum (APIC) including Prime Minister Mahathir Mohammad himself. Moreover, Gore was demonstrating that the U.S was not focused on ways to revitalize the troubled East Asian economies".

" Suharto told the world that the IMF medicines were deadly and killing Indonesia but he was removed from office before the world is now saying the same. The power structure of the infomercialists is wishing nothing less than the fate of Suharto for the Malaysian prime minister. To protect a national economy has been termed "protectionism" in the infomercial world dictionary and was translated as a sinful act committed by nationals against transnationals and their infomercial global economic order.

"Unfortunately neither capitalism nor democracy is a unifying ideology. Both are process ideologies that assert that if one follows the recommended processes one will be better off than if one doesn't. They present no common goals towards which everybody is collectively working. Both stress the individual not the group. In the most rigorous expressions of capitalistic ethics, crime is simply another economic activity that happens to have a high price (jail) if one is caught. There is nothing that one 'ought' not to do. Duties and obligations don't exist - only market transactions exist."

“A patrician president, Franklin Roosevelt designed the social welfare state that saved capitalism after it collapsed in America. None of these things would have happened if capitalism had not been threatened.”

LESTER C. THUROW  
Professor of Economics & Former Dean of  
MIT Sloan School of Management

## *Chapter 2* **THE MANY FACES OF CAPITALISM**

Economies are transformed from one order to another when revolutionary ideological and technological advances and transformations occur. Such speed in transformations may result in an evolutionary or revolutionary change. From the 1770's the steam engines and textile factories triggered an industrial revolution that kept accelerating and deeply affecting the societies of Europe and that period continued till the 1830s.

The United States continued to have until the middle of the 19th century a colonial economy, agriculture being its predominant industry. Until then manufacturing was of little significance. The United States was importing its manufactured goods from England in particular and Europe in general, and was exporting raw materials and agricultural products. This resulted in a trade deficit that was met partly by exporting gold, silver and the freight charges of American marine. Most of this deficit was met by borrowing short-term, or selling long-term securities as those of American railway securities. With improved transportation and the introduction of power-driven machines and factories the Industrial Revolution got hold at last about 1850 in the United States. Pre-mid 19th century or pre-civil war, the federal government role was not active at all as most activities of governance was handled by local and State governments. Pre-civil war agrarian community life was prevailing. Even communities whose properties were shared by all citizens who shared its use according to their existing need. Such communist communities existed even before Carl Marx gave birth to Marxism. The term communist became identified with socialism only after the 1848 “Communist Manifesto.” Utopian socialists created publicly- owned communities and best known among them was Robert Owen who established in 1825 the New Harmony in Indiana. The followers of Charles Fourier, established the Brook Farm between 1841 and 1847 on similar lines.

What can be established accurately is the fact that the civil war (1861-1865) was started when the industrial revolution took hold in the North several years before the civil war. Prior to the civil war, sectionalism characterized the economy of the United States whereby the south was predominately agricultural, the north predominately industrial and a conflict of economic interest became obvious. The south generally was against tariff protection while the north was favoring it.

The other undisputed fact was that industrial capitalism went into full gear right after the conclusion of the civil war. Historians, depending on their origin from the south or the north differed on many other details, but the basic above facts are agreed upon. Many writers including Charles A. Beard, emphasized that the civil war was caused by the diverse interests of the agricultural South and the industrial North, and that slavery and ethics had very little, if anything at all, to do with it.

The post-civil war period showed the growth of industrialization and wealth inequality simultaneously. Andrew Carnegie who was involved mostly in steel was having an annual income of about \$20 million when the average worker in the steel industry was making about \$500. Other robber barons, as they were called included John D. Rockefeller who made his wealth in oil and Cornelius Vanderbilt who promoted and built railroads. The last quarter of the 19th century was characterized with great technological inventions which revolutionized the way business was conducted. Within that period the telephone, electricity and automobiles were invented along with other inventions as the typewriter, Lino types, cash register and phonograph. Above all, petroleum products were used in industry, and for domestic heating and lighting. Also, within that period new organizational and management advances occurred which made mass production possible. The use of corporations as business organizations became more frequent, and the real era of corporate dominance was really started.

Labor unrest became widespread. In the year 1886 alone there were about 1600 strikes, and from 1889 to the end of the century some 1000 strikes occurred. As mass productions took hold the culture of consumerism was promoted and spread. With more production than local frontiers can consume, the U.S went for colonialism at the turn of the century. This was encouraged by the industrialists who were looking for markets to their industry.

If the production of steel was the measure of degree of industrialization, its annual production jumped from 1,400,000 tons in 1880 to 11,000,000 tons in 1900 overtaking the production of Great Britain. Over that same period railroad mileage more than doubled from about 150,000 kilometers to about 310,000 kilometers. This period of the last quarter of the 19th century was also a period of consolidation of competing firms into huge units that dominated a whole industry through the formation of trusts. Trusts were the vehicle used to achieve monopoly. Competing firms allocate their voting rights to a controlling number of shares to specified number of men called trustees who will monopolize a certain industry by preventing competition and controlling prices. This will result into monopoly, and high profits to stockholders. Among the first of such trusts was the Standard Oil trust of Ohio in 1882. Ten years later the Ohio courts ruled that the trusts violated the States antimonopoly laws. By 1890 there were trusts in many industries such as whiskey, salt, cooking oil, and lead. After the Ohio State anti-trust ruling of 1892, Standard Oil reincorporated as a holding company under the laws of New Jersey. To maintain monopolies, trusts either created holding companies or went into mergers. Corporations thus became the instrument for monopoly and within such a framework the American Tobacco Company was created in 1890 and the American Sugar Refining Company in 1891 which controlled most of the sugar refining industry throughout the United States. The United States exports more than doubled in that period, and except for one year in this period the trade balance favored the United States. Agricultural products topped the list of exports in addition to machines, petroleum products, gold and silver.

Labor unrest marked this period: workers salaries were on the decline and their social conditions deteriorated, while the industrialist-robber-barons were getting astronomically rich. One of the serious incidents between labor and authorities that sided with big business was at the McCormick Harvesting Machine Company in Chicago. Violence between picket lines of striking workers and Chicago police resulted in several strikers being killed and wounded. On a protest strike that followed a few days later a bomb exploded injuring and killing some Chicago policemen. Eight were arrested, tried and convicted with murder; four of whom were hanged, one committed suicide, and three were pardoned in 1893, as the governor believed an atmosphere of prejudice surrounded the whole trial to an extent that made it impossible to ascertain their guilt! This bomb incident was used by big business to create an anti-labor movement atmosphere and the power of the labor knights movement gradually passed to the American Federation of Labor - AFL first organized in 1881. The AFL busied itself with labor issues and steered away from political activities except during local and state election campaigns.

The intensity of American interest to go global was in direct proportion to the degree of intensity of industrialization and coincided with the formation of corporations, i.e. in the 1890's. In the 1890 census the value of manufactured goods exceeded that of farm products for the first time. Using mass production technologies in industry and agriculture and after the disappearance of new frontiers within the U.S American continent, a conviction developed that the United States must go global, or find new outlets through outright imperialism and conquering other people's territories. If the United States became a great power, it was time to show it. The period of American Imperialism started and a series of American wars or interventions in foreign countries' affairs were started. The first of such wars was against Spain in Cuba. The U.S demanded that Spain give independence to Cuba, and even though Spain was willing to make concessions to avoid war, nevertheless, the United States went to war. The United States took over the small Spaniards forces in Cuba and then occupied Puerto Rico. Within the same year the U.S Asiatic squadron destroyed the Spanish flotilla in the faraway harbor of Manila in the Philippines! Spain signed a peace treaty on August 12, 1898 in which it recognized the independence of Cuba. Puerto Rico and Guam were made territories of the United States of America later. But big business insisted that the United States take over the faraway Philippines in anticipation of future trade with the East. U.S president McKinley and in the treaty of Paris forced Spain to sell the Philippines to cash-rich United States for \$20 millions. The congress ratified the Paris treaty regardless of the many anti-imperialist Americans who declared that such control of faraway peoples violated the letter and spirit of the American constitution. The Hawaiian Islands were annexed by congress in 1898. Two years later they were made U.S territory. The Philippines was given partial self-rule. Big business was also looking for China's huge market which already was under several spheres of influence: Britain, France, Russia, and Japan. The U.S wanted free and equal trade and investment opportunities to all nationals within the various spheres of influence. The so-called Open Door policy was made to ensure American big business interests in China. All nations with interest on China signed the Nine-Power Treaty of Washington in 1922 and pledged to respect the Open Door.

Big businesses of the Eastern United States wanted to have a shorter way to the Pacific coasts and the United States negotiated an agreement with the French Company that had right-of-way in Panama. Colombia, which owned Panama was reluctant. Therefore, president Theodore Roosevelt in 1903 colluded with the French Company in covertly engineering a revolution in Panama. A New Republic of Panama was created to serve the specific purpose of giving a treaty to the United States which allowed the construction of the Panama Canal between the Atlantic and Pacific oceans. The canal started operations on August 15, 1914.

Under President Wilson, Haiti became a virtual U.S protectorate, and Wilson occupied the Dominican Republic in 1916. He also made Nicaragua a protectorate and bought the Danish Virgin Islands for \$25 million.

American capitalism promoted a new consumer culture and consumerism ever since mass production techniques were adopted by the U.S industry. Consumer capitalism remained to be the feature of Anglo-American capitalism until to-day and this brand of capitalism is shared by the U.S and other English-speaking countries of Britain, Canada, and Australia. This type of capitalism promotes small government and considers government's must function to serve business not to regulate it. It is also a profit-driven, laissez-faire which promotes open borders. This system of capitalism produces high income inequality, weak central government and a general condition of a hand to-mouth existence with little savings. It also has inherent business cycles that lead to frequent economic depressions: one was after WW1, followed by the roaring twenties and then the Great Depression that took a world war (WW2) to get out of it.

The United States emerged as the highest economic superpower after WW2, while the Japanese and most of the European economies laid in ruins. It had its own vision and plans for the post-WW2 global economic order.

To quickly build the ruined economies of Europe specially due to its proximity to the USSR and also due to the presence of socialist and communist parties in Europe, state capitalism was created specially in Germany and France. All European socialist thinkers of the 19th century went along with the Marxist Historical Materialism. They differed on the way to achieve the attainment of their goals as they accepted to work within existing European democratic institutions whereas such institutions did not exist in Russia. Therefore Russian Marxists went underground.

The Marshall plan was advanced and between 1948-1951 some \$12 billions in loans and grants were injected to build the European economy. Europeans, who were recipients of heavy U.S. aid were allowed to create strong social nets to limit any potential influence of the socialist and communist parties. Raising the standard of living of the population at large became an American objective as it will create better consumers and will defend capitalist Europe against any temptation to communism. Thus a European brand of state socially-oriented capitalism was created. For similar reasons Japan was allowed to build a similar state-guided capitalism that also incorporated Japanese history and culture in it, and a production oriented state capitalism sprang in Japan. We call this later on the Japanese-Model capitalism. The whole Japanese economic vision was designed, planned and overseen by General McArthur's military administration in the years following WW2. The American military administration advanced the introduction of "democratic" systems similar to those of western capitalism after WW2. In what was called the reverse action of 1947, these systems were suppressed and the country was entrusted to state & private capitalism that made the Japanese-Model that remained until today. The Japanese state capitalism model was also implemented in South Korea. State capitalism is producer-oriented and its emphasis is on employment, social benefits, and strong planning role of central governments. Britain was more on the state capitalism side until Margaret Thatcher followed Reaganomics that was consumer-oriented. Following the foot-steps of Reagan many companies were de-nationalized and government role was limited to more or less to the U.S. style.

The economies of Indonesia, Malaysia, Thailand, and Taiwan were jump-started by Chinese diaspora, and depended initially on cronies in alliance with the state. It became closer to the Japanese-Model capitalism which is production oriented than to the laissez-faire Anglo-American capitalism. In general we also call Anglo-American capitalism packaged capitalism since it is superior in packaging its unholy motives in holy packages and because of its superb marketing techniques. After the integration of information age tools with global finance, infofinancial capitalism emerged.

Unpackaged Capitalism is the form of capitalism that exists now in the ex-communist countries and it is capitalism at its clearest form. It is steered to become a sister to Anglo-American brand of capitalism if it continues its present course. It did not yet acquire the expertise of image-making and marketing of people and ideas as the older American capitalism. Mafia and blackmarketers operate for what they are. As will be discussed in this book it is a feature of capitalism to form an alliance between big business, government and organized crime. After all, as Lester C. Thurow was quoted, "In the most rigorous expressions of capitalistic ethics, crime is simply another economic activity that happens to have a high price (jail)" Through the power of money and the capitalistic government decision-making process he who must pay "a high price (jail)" appoints the jailor! Unpackaged capitalism is the most honest brand of capitalism as it calls things with their real names. The Russian state properties which were built throughout 70 years are being transferred to the few using several unpackaged schemes, and thus a one percent class (OPC) has already been created in most of the ex-communist countries within a short span of few years. Unpackaged capitalism created a handful of people who now control a major portion of the Russian economy.

A good example on how huge wealth is created in capitalism is best illustrated on how the new one-percenters class OPC was created in the unpackaged capitalism of Russia. It is not much different than the way the American robber-baron-capitalists acquired their wealth. And may be Potanin will make a good example. Describing how Potanin went for a meeting with Russian President Yeltsin (*BusinessWeek*, Nov. 24, 1997), the article said "... behind (36 years old) Potanin were five of Russia's other business princes.. together with the energy Czars, these businessmen control half of Russian industrial wealth..... Since 1990, he (Potanin) built an empire of industrial companies, banks, and media groups ... equal to nearly 10% of Russia's gross domestic product." Most of the wealth was accomplished through scams and schemes. Potanin devised a "loans-for-shares" scheme. Potanin gave government cash-hungry industries of his choice some cash which according to the scheme if unpaid the shares will belong to him. The prices were literally steal prices. Potanin then got himself the job of vice premier to see to it that these companies don't pay on time, and thus ensure the transfer of shares to him. After the job was completed Potanin installed a caretaker on his behalf within the government and he left the government to look after his business. In such a manner the industrial companies that were built by Russians over 70 years were acquired or stolen. The people who built them are now in absolute misery. The pensioners among them are not

getting paid their meager pensions. Salaries of workers and even the army are not paid. Schools and hospitals are breaking down. But, Potanin is doing fine. He now controls a business empire that among others include the following:

- Oneximbank, MFK - Renaissance Investment Bank
- Russia's third largest oil & gas company
- Svynzinvest which controls 88 regional phone companies
- The largest nickel-producing company in the world
- A steel company
- An aircraft company
- River shipping company
- 51% of Izvestia newspapers
- 51% of Komsomolskaya Pravada

Not bad for a 36 year-old young man who was only a few years ago an absolute zero!

One of Potanin's powerful connections is Boris Jordan, an American whose ancestors left Russia during the Bolshevik Revolution. His lawyer uncle in Switzerland consults Potanin and he introduced the two boys together, in 1993: Jordan was 27 then, and he came to Moscow to manage the office of Credit Suisse First Boston (CSFB). He must have had lots of connections to land such a job at age 27! And of course lots of qualifications. Not long after his arrival to Moscow and knowing Potanin, Jordan decided to have his own Renaissance Capital Investment Bank. When Potanin wanted to acquire 25% of Svyazinvest which controls 88 regional phone companies Jordan arranged the finance. George Soros was brought in to give some change: he invested \$980 million and the deal was done. These facts about Potanin and Russian unpackaged capitalism can make a few points:

- Basic character of capitalism, packaged or not, is identical.
- An international network of one percenters exist, not always visible to help or create one another. One percenters (transnationalists) loyalty as shown is not to a nation-state but to their greed.
- Communism was an evil empire. It is debatable if the existing system is any better!

Anglo-American American-dominated infofinancialism is also known as the Washington consensus. An undeclared alliance exists between American Treasury and financial leaders of IMF and World Bank. On the other side, there is the Japanese-model capitalism championed by the Japanese, Korean, and other "tiger" Asian economies. The Japan's Economic Cooperation Fund issued a white paper questioning the "standard prescription" of the IMF-WB of economic restructuring. "Although efficiency and fairness are the major objectives to be pursued in economic policy, there is sometimes trade-off between the two ..... what is now needed is a policy well balanced between efficiency and fairness, in order to improve the welfare of the entire society." The Japanese-Model state capitalism doesn't give free hand to global investors. The World Bank and IMF consider this as "financial repression" that must be eliminated. Bonds ownership was barred to foreign investors. Foreign money can participate in productive investments such as factories or in joint-venture with national capital. Interest rates provided to industry was frequently at below cost as a contribution from the financial sector to the job-creating sectors. Agricultural prices were supported by the national government to allow the farmers to share in the new prosperity. The principle of shared growth adopted by Asian state capitalism was the main reason that a better wealth distribution existed in such economies than those western economies operating only under the tyranny of market forces.

The attack of the global financiers on the state-guided-capitalism, i.e. Japanese-Model, is because the state is not giving them a free hand to their markets and also because the state-lending institutions lend at competitive rates they cannot match even if they are allowed entry. Dismantling such somewhat socially-conscientious system will allow huge new opportunities to manipulate, speculate, and extract these countries' wealth.

One of the main causes for the Mexican economic meltdown was that only one quarter of the foreign investment was invested in productive assets, where as the remaining 75% was in pure hot speculative money in the financial markets that can exit the country via a computer program, but can leave a whole nation's economy in ruins.

The collapse of communism was more due to the defects of that system rather than superiorities of the capitalist system. Five hundred year-old capitalism was more experienced than 70-year old communism.

It is interesting how the theoreticians of the capitalist order can move from one extreme of the spectrum to another with their theories. Yet when prompted or adopted by the capitalist power structure and its media such theories are given mystique and are elevated to become doctrines, or even religions. Yet, those theoreticians seldom predict when an economic order was crumbling and more often than not were Monday morning quarterbacks.

After events brutally injured classical capitalism's hands of the free-markets and proved it incapable to maintain equilibrium and economic and social peace in 1929 and the Great Depression, F.D. Roosevelt, along with the finest and most dedicated men to the capitalist order, worked hard to come with practical reforms to save capitalism from itself. The programs of the New Deal that were evolved were only possible by the government "hand" reforming what absolute free-market hands destroyed. Backed from overseas by John Maynard Keynes who published his book *The General Theory* in 1936, the Keynesian Orthodoxy became the recognized economic order of the day. It argued that although the market hand may eventually bring equilibrium, nevertheless, the state of things are otherwise mostly in a state of disequilibrium that needs a government hand to adjust. By doing so, social and economic peace in societies can be promoted that may not be achieved by markets alone. Most of the social reforms were started during the Great Depression and continued during the Keynesian era. Keynes himself participated in the creation of the post WW2 economic order: the Bretton Woods system. The economic progress that was witnessed for the following 25 years was under that system. That system was derailed by excessive spendings not on social issues, but in Vietnam and other destructive wars that were initiated by the secret government not by the government, which resulted in and ended with more paper money printed than can be supported by the Bretton Woods system. It was also the invisible hands of the secret government that played the key part in the collapse of communism.

The rise of new economic powers like Western Europe and Japan not only created less demand from U.S.A but these economies started to compete with the U.S economy in other markets. In those countries, a new form of capitalism emerged which adapted to these countries' cultures, Keynesianism, and communist threats from their own national communist parties, or from outside. Social state capitalism was formed which produced good social security and other welfare programs. The Japanese model was one of such new forms of capitalism.

Chicago University economist Milton Friedman, published in 1963 a book he co-authored with Anna J. Schwartz called *A Monetary History Of The United States* and Friedman concluded that improper control of money supply was the father of all evils, including the Great Depression. He claimed that not only F.D. Roosevelt and his New Deal was wrong but also the whole Keynesian Orthodoxy is dead wrong, disastrously and totally. Any government hand in the market place is an intrusion that is totally and fundamentally wrong. He invited congress and politicians repeatedly to undo the New Deal programs and government programs that were accredited by many as what saved America, and what gave capitalism a better face to compete with communism. Again, whether Friedman's monetarism and deregulation was prompted or adopted by the U.S power structure, it became the order of the day. Basically, Friedman wanted to undo the government programs that were made since the Great Depression, and he wanted a return to free-market 19th century classical economics that were slightly rehabilitated.

The new economic principles of Friedman and his disciples, were implemented under different banners. Reaganomics in U.S.A and Thatcherism in the U.K. Many of the programs that were created during the Keynesian era were modified or cancelled. Under the banner of less government and deregulation the absolute rules of the markets and the financiers were restored. From the time deregulation and monetarism let the market alone rule in the 1970's, and until to-day two things resulted. The real income of the majority of Americans in real terms either stagnated or decreased. The wealth inequality continued to rise until it reached in 1990 the pre-1929 levels! If the deregulation and monetarism wanted the economies to return to pre 1929 states, they had arrived. The global economy as a whole is now showing 19th century capitalism and economics. Marrying the 19th century classical economics to the information age tools produced today's infofinancialism.

It is ironic that in this deregulated market-dictatorship era, the one main point that was preached by Friedman and monetarists is not practiced: money supply control. The infofinancial system is now creating unlimited money supply in many forms and it is lending it recklessly. Through the Wall Street Washington consensus and alliance, governments throughout the world were

forced to deregulate even before they could install other viable controls, and the Asian crisis showed that nobody knew exactly he owed how much to which country and to whom. A global economy was unleashed without proper controls.

The 19th century classical economics brought a civil war, followed by a Great Deflation, two depressions, labor unrest, economic turmoil and bank failures, political unrest and populism in the 19th century. In the 20th. century it caused a world war, a depression, a Great Depression and the Greatest of all world wars!

If we use what mathematicians call extrapolation, the future then looks scary indeed. The basic one difference between the 19th and 20th centuries classical economics is the magnitude of its aftershocks. In the 19th century bankers needed to bring gold or ship it to Europe to close a big deal and that took 2 weeks, if enough gold was available. The damage and aftershocks had these limitations of time and quantity. Not now! Money supply is almost unlimited and you can ship it electronically in a split of a second. The multiplication of this lightening speed by the enormous volumes of money -- an energy -- is creating infofinancial nukes that can do WW III without firing a shot. And South East Asian economic meltdown and its disastrous social consequences are but a small example to what may be coming or to the potential danger now in store in computer memories.

Global infofinancial capitalism now looks forward to become the global model for the world's economy. This is why, after the collapse of communism, the other faces of capitalism are being assaulted. It is also the reason for the assault of all other ideologies that will not follow the rules of Anglo-American infofinancial capitalism. It is ironic that the American capitalistic order actually collapsed when it fully depended on market forces during the Great Depression of the 1930's and it was state interventions that saved it from itself. That lesson is now totally ignored. It is assumed that the globalization process and the possession of the United States to various economic variables will allow it to prevent severe economic cycles from occurring within U.S borders. In a global economy such cycles can be "exported" for elsewhere to occur.

“As readers revisit (the Communist Manifesto) on its 150th anniversary, those on the left and on the right have been struck by the eerie way on which its 1848 description of capitalism resembles the restless, anxious and competitive world of today’s global economy.”

Paul Lewis, *New York Times*, June 27, 1998, p.93

“In its most unbridled form, capitalism certainly delivers wealth but stumbles when it comes to distributing its rewards equitably enough. Resentment against capitalism could provoke a backlash against free trade and its sponsors. And few institutions now exist to regulate the excesses of global finance.....”

*Business Week*, December 12,1997, p.17

## *Chapter 3*

### HISTORY OF GLOBALIZATION Re-Engineering Of Capitalism

The speed of globalization is certainly greater than anyone would have possibly anticipated within the first half of the 20th century when elaborate and detailed studies and plans of actions were undertaken by the elite institutions. Most of the information age technologies not only came coincidentally, but once invented, they did create unanticipated revolutionary effects. Globalization as an economic vision preceded such new technological information-age inventions.

Around the late 1950s, the master planner of the universe had few unrelated events occurring that did not seem interconnected nor did they appear like seeds will spark a technological revolution.

- German scientists taken to the USSR developed powerful rockets that became capable in 1957 to put a man-made satellite on orbit: Sputnik. Not a long while later the German-led American scientists launched their satellite. It was a joke then that the Russian and American satellites used to salute each other in German as they crossed one another in space. The purpose for rockets and satellites were intended mainly for military purposes; anything else was incidental. It was this "incidental" that triggered a communications revolution that made possible many of the technological instruments of today's information age. People envisioned that the world is going to get bigger -- but instead it became smaller and the term "global village" was coined. Telephones, telexes, faxes, mobile phones, cable news, electronic banking, money transfers, ATM'S, to mention a few, would not be where they are today without those inventions.
- Around 1958, two people in two separate companies invented the silicon chip. They were Jack Kilby at Texas Instruments and Robert Noyce at Fairchild Semi-conductor. This led to the discovery of an immense power of memory and calculations. The so small-a-size of the chip keeps getting smaller and smarter. Its use in various applications including making computers smaller and affordable in almost every household gave the world a new revolutionary technological invention that was beyond the imagination of even those concerned. Thomas Watson, IBM chairman said in (1943) when computers were discovered, "I think there is a world market for five computers." But Ken Olsen, President, Chairman, and Founder of Digital Equipment Corporation said in 1977, "There is no reason for any individual to have a computer in their home." Apparently, the master of the universe planned otherwise.
- Also around the year 1958 and for the first time in the history of nations, the number of white collar workers exceeded that of the blue collar workers in the U.S. If Karl Marx knew about this he would have changed his mind about the dictatorship of the proletariat! Over a third of Americans worked in agriculture at the beginning of the 20th century, now about 3% only do, less than those employed in education and research. Yet, agricultural production is better and more abundant now.

Acknowledging the importance and revolutionary inventions of chips, computers and satellites they remain only as tools that, if properly used, can assist in the control of any plan, manage it better and faster, but these instruments alone do not create a global vision or a plan.

The industrial revolution that took hold in the United States about one century before the information revolution carried some resemblances. Many innovations were made by 1880: the transoceanic telegraph cables, photography, submarine, Bessemer steel, the mechanical reaper, the steam plow, electroplating, the steam drill, the sewing machine, the compound steam engine, the microphone, the specto-scope and above all, the phone, petroleum products and electric light. The

information age new technologies i.e. computers and communications led to better productivity and management and higher production. These tools gave the industrial revolution in America a great expansion. In both revolutions, the speed was faster than imaged and was ahead of any regulations to control their side effects. In the period between 1840-1900, farm acreage doubled, and the capitalized value of American farms increased two and half times, whereas the capitalizations of American manufacturing increased tenfold within that period. Workers in manufacturing increased from 1.3 million to 5.3 million. Coal production increased some 30 times, crude oil about 115 times, pig iron about 15 times, and crude steel about 1000 times. The whole national income increased several times. The general trend of wages in the industrial revolution period 1860 - 1900 was on the downward side - the same as what happened to the wages of workers in the information revolution. In both revolutions, robber barons were created, while workers wages were coming down. If it was a Rockefeller or a Vanderbelt then it is a Bill Gates or a George Soros now. In the 1860-1900 industrial revolution, two big depressions occurred; one between 1873 and 1879 and the other between 1893 and 1896. Two recessions were marked within the information revolution.

As the U.S economy is now steering a world economy and has the might politically, militarily and economically to dictate global economic conditions, recessions and business cycles can be dumped to non-US economies. The 1997 Southeast Asian economic crisis was initially believed to possibly cause a 0.4 percent slowdown in U.S economical growth, which by itself was considered "a salutary" event by the U.S Federal Reserve Chairman. The decrease of oil prices and energy costs by 25% within the same period was forecast to increase U.S. economic growth by 0.4 percent! The U.S economy within a global economy did not suffer. Asia and oil producers did. How much of a coincidence such events can be left for every body and his imagination.

Just as the suddenness and speed of technological inventions took legislators and regulators of the information revolution by surprise, it also took the legislators and regulators of the industrial revolution by surprise. Among other things it resulted in the saving and loan banks failures in this information revolution and hundreds of billions of taxpayer money were used to bail them out. More than 600 banks and loan companies failed during the period of the industrial revolution and thousands of small businesses went bankrupt. Businesses that survived these "structural adjustments" were absorbed by their big competitors through mergers and acquisitions then and now. People were extremely dissatisfied during the two revolutions from the existing political parties, Democrats and Republicans. People were so desperate for an alternative that in the 1992 elections, it took few TV talk show interviews and a good talker, Ross Perot, to have people all over the country join in an effort to create the new way. At one point, Perot showed higher points in polls than both Bush and Clinton. Ross Perot, however, was not the right man for such a mission.

A century earlier people were fed up with the political system of both parties and its excesses and a third party was formed. The Farmer's Alliance nominated people under the name the "People's (Populist) Party".

In 1890 James B. Weaver of Iowa ran for president and populists won ten representatives and five senators. More triumphs were repeated in the 1894 elections. The people's party slogans were "people's money," "people's land," "people's wealth," "people's co-operation," and "people's transportation." Such slogans were widely accepted throughout the country and some presumed a populist victory in 1896.

The simple equation of supply and demand in the market economy will lead to the obvious; if the industrial revolution resulted in mass productions, a new mass demand must be created. The slow resolution of this demand issue resulted in two depressions then and two big recessions now. America's global power may have enabled it to make the cycles as recessions now as the buck can be passed to outside US borders in a global economy.

The way the industrial revolution age capitalists tried to resolve this issue is like the same you would expect today's capitalism to resolve it: create new markets and create more consumption. In the case of the industrial revolution the solution was: increase the population, create a consumerism culture, and expand. The consumption culture creation will be discussed separately in a later chapter. The United States population was doubled to 76,000,000 people in 1900. Immigration was increased from a rate of 280,000/year in 1870 to 1,000,000 people/year in 1900. Also, the United States geography expanded as the industrial revolution was expanding. If 1850 was the year the industrial revolution took-off, then the push for the west started by then. The original population that inhibited

America since time immemorial was annihilated or marginalized. Hollywood western movies created a culture that pictured them as savages deserving nothing less than what they got. Cheers went around the room at our university dorm TV hall when Indians got killed in a movie, yet expressions of sorrow and grieve were expressed when the dog Lassie fell into a small trap.

As the industrialization sped, so did the conquest of the west. It is interesting to compare the dates in which states were admitted to the United States union and the development of the industrial revolution between 1850 - 1900:

- |                      |  |
|----------------------|--|
| • California -- 1850 | • Washington -- 1889                             |
| • Minnesota -- 1858  | • South Dakota, North Dakota,<br>Montana -- 1889 |
| • Oregon -- 1859     | • Idaho, Wyoming -- 1890                         |
| • Kansas -- 1861     | • Utah -- 1896                                   |
| • Nevada -- 1864     | • Oklahoma -- 1907                               |
| • Nebraska -- 1867   | • New Mexico, Arizona-- 1912                     |
| • Colorado -- 1876   |  |

Area-wise, that makes up about half the United States.

In the early 1890's and as the country was in a deep depression, wealth owners started to look to territories outside the United States. There was little more territory left for expansion within the United States, and if the United States became a big power it was about time to show it. At that time the United States became an imperial power looking for markets outside continental America. Mark Hanna of Ohio backed Ohio Governor William McKinley as the Republican candidate of 1896. Hanna seemed capable to line up the countries' press behind McKinley. As soon as he got to office he started to implement the baron capitalists' agenda. He obtained a new tariff in 1897, repudiated silver in the currency Act of 1900, and most importantly he made the United States an imperialist power. Through war with Spain, America now had overseas territories. Alaska was bought from Russia in 1867 for \$7,200,000. But it was in 1896, after gold discovery, that Americans went to Alaska. In 1912 Alaska was given territorial status and was admitted to the union in 1958.

Many people around the world assumed for so long that colonialism and imperialism were part of the European nations' culture and the U.S had none of it. In fact the U.S had both. Under the title "End of American Colonialism" Collier's Encyclopedia" (p695) 1962 Edition wrote, "With the admission for the union of Alaska in 1958, and Hawaii in 1959, the era of American colonialism virtually came to an end." The Encyclopedia Britannica called this period "American Imperialism." American colonialism started with president McKinley who started the Spanish war and virtually made Cuba a protectorate. The Platt Amendment was a policy issued by Washington that authorizes American intervention when necessary in Latin American countries when the U.S considered it necessary to preserve that foreign country's domestic order. The U.S requested Cuba in 1902 to include the Platt amendment in its constitution! The U.S occupied Puerto Rico which was ceded to the United States by Spain in the Paris peace agreement. The U.S in its pursuit for trade with the Far East, wanted a foothold in the Philippines. The Asiatic squadron destroyed the Spanish fleet in the Manila Bay and the city of Manila was occupied. The U.S wanted the whole archipelago of the Philippines, and in the October 1898 peace agreement the U.S agreed to pay \$20 millions to Spain. What the U.S could not get by arms, it got by the dollars. U.S government and legislators created such a policy and they called it exactly for what it was: "The Dollar Diplomacy".

In 1903-1904, the United States (in absence of U.N to give it legitimacy) declared by self-appointment the status of international police. The United States gave itself the right to exercise an international police power in Latin America when nations of Latin America are judged failing to perform their financial and other obligations to foreign countries. Such a role was developed and packaged to become the role of the U.N and the Bretton Woods institutions after agreements and new management techniques made it possible. This was called, "Theodore Roosevelt corollary to the Monroe Doctrine." This doctrine was enforced and the U.S intervened accordingly in Haiti, the Dominican Republic and Nicaragua. Unilateral interventions in Latin America created anti-Americanism there. In Mexico, president Wilson made a lengthy intervention in 1910. To ensure American business interest the "Open Door" policy (1899-1900) was enacted. The Open Door ensured equal opportunities for American business in trade and investment in the various areas of influence in China. Also, the elite of United States wanted access to the Latin American markets and its raw

materials. Taft's secretary of State Philander Knox made an attempt to use the Dollar Diplomacy, initially coined for Latin America, in the Far East as well. Whether it was the Open Door policy or the Dollar Policy what the U.S. capitalists needed was access to other people's markets and raw materials.

Theodore Roosevelt, based on the U.S. Eastern Establishment urgings, wanted to construct an inter-ocean canal across central America. This was to assist commerce but also to allow easy movement for the growing American Navy. Since the territory belonged to Columbia which was not responsive, the U.S government gave a go-ahead to covert operation in collusion with the French company that was eager to sell its concession to the U.S. A revolution was engineered and paid for which resulted in the creation of an Independent State of Panama. It gave the Americans the needed concessions and leases. Construction of the canal was completed in 1914.

World War I was both a military and a global economic event that resulted in expansion of the U.S economy even though President Wilson's stated motives for entering the war were defined to aid democracy against autocracy and to put an end to all wars.

The decade of the 1920's started with a manageable depression yet it was a decade of prosperity. In this decade big business asserted itself, and the U.S government accepted its role as to assist big business not to regulate it. The government adopted laissez-faire social and economic theory and the principles of cooperation and collective action of the progressives were in decline. The day of reckoning came in October 1929 when Wall Street crashed and the Great Depression precipitated. The 1930's became the decade of the Great Depression. Many theories were made to the causes of the depression, but it was generally agreed that inadequate consumer power and inequitable distribution of wealth were among its main causes. Production exceeded demand by far. The stock market crash was a result not a cause of the imbalance cycle; demand fell; capitalists withheld capital; unemployment increased; more decline of income and prices; even more loss of demand; more withholding of capital .....etc.

Hoover, an advocate of less government, did not act. As a devout believer in market-capitalism he wanted the market to act. Let the "laissez-faire" economic theories do their work. But they did not and state intervention became a demand of the majority. Even the wealth owners wanted the government now to bail them out.

Actions by a government to correct the economy were not among the principles of free-market economics that was being promoted then and today.

- One of the first actions by government was to solve the banking problem as the banking system was about to collapse. It was not the market but government power and money that averted the collapse. The banks were closed until the government mobilized the needed credit on their behalf. Whether it was during the depressions of the late 19th century, or the Great Depression, or the recent failure of S&L associations, it seems that bankers understand their function as to make money, and the government function is to bail them out when they are in trouble. That is not really free-market economics!
- The government encouraged business to agree on pricing policies, production and other aspects of business, and when the government approved these prices, and practices, they had the power of law. This was the National Industry Recovery Act of 1933. Free-market economics and Adam Smith are sure that market forces only should dictate prices.
- After social commitment of the progressives faded, and after this great depression, the government found it necessary to create social welfare. The government (not business) created the Works Progress Administration which employed millions of people. Old Age and survivor's insurance for the old and old-age assistance programs were created. Capitalism accepted this apparently as a necessary evil; an anti-depression measure that can be repudiated later!
- Even the labor had to be assisted by the government. The Fair Labor Standards Act and Wagner Act resulted.
- Aid to business itself was done through the Reconstruction Finance Corporation.

These programs caused mounting federal deficits to become chronic. Everytime the Roosevelt administration thought itself to be out of the woods, it turned out to be otherwise! Between August 1937 and May 1938 for instance, the index of production went down from 117 to 76 (considering the year 1929 as basis) and unemployment increased by 4,000,000 persons in those few months only. After

10 years, the economy returned to what it was in 1929 at the start of the Depression. It was this socially-oriented state capitalism that saved free-markets capitalism from itself. Ironically, it shares many features with the Japanese Model. During World War 2 the U.S Federal government assumed control, almost totally, of the economy.

The owners of wealth in alliance with the technocrats became more active by 1939 to develop plans for the United States during and after World War 2. Their plans were not only monumental but the way they formulated them was equally important. The Council on Foreign Relations planners contemplated two alternatives to ensure that another Great Depression would never occur; either reform market forces by government interventions, or leave market forces as they are. In the latter case the American economy must have access to foreign raw materials and markets to keep pace with the growth of American economy.

“The portion of the council’s history that is of particular interest to our present inquiry began on September 12, 1939, less than two weeks after the outbreak of World War 2. On that day, Walter Mallory, executive director of the council, and Hamilton Armstrong, the editor of Foreign Affairs, met in Washington with George Messersmith, assistant Secretary of State and a member of the council himself. They outlined a long-range planning project to be carried out by the council in close collaboration with the State Department on long-term problems of the war and plans for the peace. Several war and peace studies groups composed of foreign policy experts would produce confidential expert recommendation for President Franklin D. Roosevelt, who during his tenure as governor of New York, had lived in a town house next door to the council’s headquarters. Relations between Roosevelt and the council continued to be close. At that point in history, the state department lacked the funds and personnel to undertake such studies, so its leadership accepted the council’s proposal. By the end of the war, the partnership had produced 682 confidential memoranda for the government, with funding provided in part from the Rockefeller Foundation.”(*When Corporations Rule The World*, p.134)

The following quotation of a confidential memo from the Economic and Financial Group of the council dated April 1941 in which the memo writers admitted that the proposed global economy is designed to serve "Anglo-American Imperialism" using their own words. Plans were so detailed that how people should perceive those plans were thought out in detail. “If war aims are stated which seem to be concerned solely with Anglo-American imperialism, they will offer little to people in the rest of the world, and will be vulnerable to Nazi counter promises. Such aims would also strengthen the most reactionary elements in the United States and the British Empire. The interest of other peoples should be stressed, not only to those in Europe, but also of Asia, Africa, and Latin America. This would have a better propaganda effect.”

On July 24, 1941, the concept of the Grand Area was outlined by memorandum E-B 34 of the Council and was submitted to President F.D. Roosevelt. It defined the area that the United States must dominate to secure raw materials and markets. This memorandum recommended the establishment of a financial organization that will manage the stabilization of world currencies with enough liquidity to facilitate trade. This recommendation was implemented and the institution created was called the International Monetary Fund (IMF). It also recommended the creation of another financial institution that will provide investment capital for projects in the areas in which growth was to be developed within the Grand Area Plan. This recommendation was also implemented and the name of the institution became the International Bank for Reconstruction and Development (IBRD), better known as the World Bank.

Interestingly, these studies assumed the United States was going to join the war before the war was declared and also assumed that the war will be won by the United States and the allies. It made details for the creation of the IMF and World Bank as the governance institutions for a global economy and their role, remained basically unchanged to this day, except that its real function became more obvious nowadays than before. These are institutions to financial management and control of a global economy centered around “Anglo-American imperialism” using the words of the planners. The same month this memo was written, i.e., July 1941, U.S forces occupied Iceland. Before U.S declaration of war, the U.S navy started to include British ships with instructions to shoot any German or Italian ships on sight. The U.S became a partner in the war without declaration. Simultaneously, in July 1941, the United States applied embargo on Japan that later on included oil. In the 1940 elections, opinion polls indicated that the Americans, even though they sympathized with the allies, their

majority were opposed to U.S entry to that war. The Republican presidential opponent accused Roosevelt of being a "war monger." That was received well by the voters. After expressing his opinion that aggressors are contagious and must be "quarantined," Roosevelt quickly reversed his campaign message by promising Americans that "their boys will not go to war," only to send them to war the same year right after the election! America needed a Pearl Harbor to get into WW2!

History, like news, describes events as perceived by the writers or as the writers want the reader to perceive these events. On a flight to Istanbul on January, 6, 1992 at 33,000 ft. in the air, my family and Donald L. Van Etten and his wife met and started the normal get-acquainted conversations. American-led war against Iraq was discussed as that war was less than a year old and Iraq was only one hour away by plane. I found it strange, I told him, that the United States failed to intervene to stop the whole Iraq-Kuwait war before it occurred. The U.S. had satellites and other resources that can intercept all communications, see even license plates of tanks, know if they are deployed for action....etc. If the United States declared a Carter Doctrine that specified the region as vital to the interest of the United States, and oil was a national security item, it is strange that its Baghdad Ambassador April Glaspey would leave Baghdad a week before the war. Also, as was revealed later, the White House ignored the National Security on-duty officer's warning that available data within National Security indicated that an invasion was not only imminent but even specified its exact time! Several years earlier American military planners created the Central Command for such an eventuality. *Fortune* magazine issue of May 7, 1979 published a war game "If Iraq Invades Kuwait or Saudi Arabia" and the war game discussed the functions of the sixth fleet, seventh fleet as well as infantry from the Eighty-second and 101st divisions; names we heard about during the Gulf War. Why did the American Ambassador give the wrong impression to the Iraqis that the Iraq-Kuwait problem was an Arab-Arab problem and the U.S is not interested to interfere in Arab-Arab affairs? Is it that all the U.S government agencies made an incredible failure at the same time, an assumption that defies logic, or is it that the U.S precipitated the problem as part of a post-cold war new world order in the making?!

It turned, that Don Van Etten is a history professor. He said if the United States thought that if an Iraqi-Kuwaiti conflict would serve the interest of the United States it would be possible that it allowed events to escalate. Franklin Delano Roosevelt, said Van Etten, not only knew that Pearl Harbor was imminent, he purposely precipitated the event. Henry L. Stimson, the Secretary of War, wrote on November 15 1941 "The question is how should we maneuver them (Japan) into firing the first shot." The United States had a war plan (naval) for coping with a Japanese attack on Pearl Harbor called "Operation Orange." In the exercises on Operation Orange, the United States used the planes from USS Lexington and USS Saratoga "Interestingly enough Japanese observers were there" during the exercises. "There was no other enemy (except Japan) and no other target except Pearl Harbor". The United States also did not lack the intelligence data in the case of Pearl Harbor, Van Etten said, as the U.S intelligence successfully decoded all Japanese messages. Van Etten, promised to send me a paper on the subject that he wrote. Once back in his office in California he sent me his paper (this is presented in Chapter Nine). The reader may reach his own conclusions based on the data and arguments presented.

The rest of the story of WW2 is known. As the policy papers of the Council for Foreign Affairs predicted, the United States won the war. The international governance institutions that will manage the global economy were created; the IMF and WB. Europe was devastated, and so was Japan. The United States did become the predominant economic power after the war. And now the stage is set for implementing the Grand Area vision -- and the cold war era had begun. In 1945, about the time of surrender of Germany on May 7, a new tool for world's governance was created as planned. A conference on the establishment of a United Nations was held in San Francisco. It was meant to be a forum for discussions among nations to create consensus politically and economically. The Bretton Woods institutions : the World Bank and the IMF were also created, thus the Grand Area plan was set in motion.

The United States conducted the war on other people's territories. Japan was in ruins. Europe was devastated and the USSR had the country and the economy in ruins plus some 20 millions dead. The United States not only remained in- tact, but its economy grew more than 300% during the war, and because of it. For Europe, Secretary of State George C. Marshal proposed a plan in June 1947. The purpose was economic rehabilitation of Europe to stand against the communist threat. Sixteen

nations plus Western Germany participated and \$12,000,000,000 were spent by the United States within three years through the European Recovery Plan as the Marshall plan was also called. Twelve nations signed the North Atlantic Treaty Organization in April 1949. The communist take-over of China by the end of 1949 made the U.S. decide to strengthen Japan and push for its industrialization to counter the Chinese threat.

The Truman administration prepared a 21-point domestic program named the Fair Deal. In September 1945, it sent this program to Congress. The program called for social security expansion, fair employment practices, public-housing legislation and other social benefits mostly to the working majority of Americans - Truman could not pass this program in congress. Truman made many attempts to advance his Fair Deal to assist the underprivileged Americans including his January 20, 1949 inaugural address with little success. Only a very small part of the program was enacted in 1950.

The National Security Act was enacted in 1947 and the Department of Defense was created in 1949. Much of the period between 1947 and the end of the cold war will be discussed under two separate chapter: "The National Security State".

By the year 1949, most of the instruments for global governance to implement the new post-WW2 economic globalization order were in place. The G7 was formed at a later date. The Grand Area included most of the non-communist world. The huge economy of the United States that expanded many times during the war had now a "grand area" within which to function with minimum stress. Almost everybody except the U.S.S.R needed the United States to reconstruct and develop. Europe, Japan and many other parts started their reconstruction effort while some of them were under direct American (and allied) occupation such as Japan and Germany. Their whole constitutions and economic orders were built according to American plans within the new "global" vision. The U.S economy produced between 1939 and 1945: 86,330 tanks, 296,400 airplanes, and 6,500 naval vessels. The Manhattan project which managed the production of the atomic bomb (tested on July 1945) spent \$2 billion dollars of 1945 \$'s at that project alone. Unlike what happened after WWI such a huge economy can now keep running, leading a new global economic order. The United States hoped that the devastation of the infrastructure and industries of the U.S.S.R during the war and the loss of about 20 million lives may give it some leverage over the Soviet Union if the USSR needed assistance from the United States for its recovery. Instead of asking for U.S assistance and thus restrain its policies, the USSR started building its economy going it alone. By September 1949, the USSR tested its first atomic bomb and the Soviet Union economic growth in the 1950's was among the highest in the world. U.S planners decided in the early years of the cold war to bring the downfall of the USSR mainly through economic strangulation and overspending on non-productive means. Most of the USSR resources were directed towards military industries and a cold war was waged between the two faces of materialism. The 500 year-old capitalist order armed with better management and knowledge to the rules of the "game"; a post-WW2 economy that needed not to start from scratch; and a global area for its economy to operate with minimum stress won the game. A globalization process was set in motion immediately after WW2 and the needed institutions to manage it were created. The new technological inventions in the information industries fuelled the globalization process. After the collapse of communism, former USSR territories were included to the Grand Area, and a truly global economy emerged. Marrying this global economy to the information age tools, the infofinancial capitalism era started in which no other form of capitalism or ideology is tolerated. Washington consensus of infofinancialism is now advanced as the de facto economic model of the world.

“In the decades following the civil war, American capitalism began to produce a distinct culture, unconnected to traditional family or community values, to religion in any conventional sense, or to political democracy...

From the 1890's on American corporate business, in league with key institutions, began the transformation of American society preoccupied with consumption, with more goods this year than last, more next year than this. American consumer capitalism produced a culture almost violently hostile to the past and to tradition, a future-oriented culture of desire that confused the good life with goods...

Today, as mass consumer capitalism seems to be spreading across all frontiers, it is urgent for us to understand how it first came into being and what was gained or lost or repressed in that process. It is urgent for us to see this culture as a time-bound historical creation, especially if we have any misgivings about it, want to change it, or aim to reject it altogether...

The cardinal features of this culture were acquisition and consumption as the means of achieving happiness; the cult of the new, the democratization of desire, and money value as the predominant measure of all value in society”

William Leach, *Land of Desire*

## *Chapter 4* **CONSUMER CAPITALISM** **The Rise Of Consumerism**

The sudden increase in production that resulted from the industrial revolution innovations and mass production processes that were developed stumbled as consumption was not catching up with the production. The supply and demand rule of market economies dictated the creation of new demand. The increase of production was revolutionary which resulted from the industrial revolution. Thus the increase in demand must be also revolutionary as well and in this case a whole culture must be changed. The United States decided to go colonial as another way to create the necessary demand.

If anybody had doubts that revolutionary action was needed, the two depressions that occurred in the decades of the 1870's and 1890's were strong reminders. Depressions were not only bad economics but they were bad politics also, as a third American party was formed: the people's party. That party did not think much of the robber baron capitalists nor of the economy they controlled. They started to show increasing popularity and winning congressional elections.

The problem became not the production of goods but the production of customers. Consumption was elevated to become a religion, whose spirit was the human desire. This new religion of "consumptionism" was anti-religious, as all religions taught the suppression and control of desire. Religions taught moderation in worldly possessions and promoted ethical values above material ones. The rewards, as religions promised, will be peace of mind in life and a better later-life after. Consumerism went into the opposite direction. "It's now or never" as its popular songs advocated. The religious-based culture, and the way of life it produced was targeted for change by the holders of wealth and production as it did not suit their system. They were the minority yet, they were determined to change the majority. Their unlimited drive for more money and power had no ends. By the turn of the new century, in the early 1900's only two percent of the people owned sixty percent of the total wealth of America, and the bottom half of Americans owned only 5% of the total wealth.

In the materialistic world of capitalism, the new consumerism culture had to be elevated into a science. The owners of wealth and production made an alliance with leading universities and colleges, which started to teach business in newly created business schools, and those wealth and production owners not only donated their money to these institutions but actually sat on their board of trustees and cooperated in formulating their curriculum. The government also became a participant in the creation of this culture and Herbert Hoover both in his capacity as Secretary of Commerce and as U.S President played a major role to forge the business-government alliance. The government accepted its role as provider of services to big business, and big business became the major partner in this alliance.

Hoover's description to life in small-town America prior to the consumerism culture was interesting since it came from a man who did so much to change that culture of the 1880's. The speech was made during his 1928 presidential campaign as he was revisiting his birth town of West Branch, Iowa, a town of 800 people in 1880. He noted that as his Aunt Hannah predicted, churches and meeting houses would be converted to places of "abomination," the old Quaker meeting house became a movie house! In the 1880's, Hoover said, people shared communal pleasures. The town was self-sufficient as it grew its own wheat and corn and ground it in its mill. The town was self-sufficient in meat. It wove its own clothing, "We repaired our own machinery; we got our own fuel from the woods; we erected our own buildings; we made our own soap; we preserved our own fruit and grew our own vegetables. Only a small part of the family living came by purchases from outside." Hoover said that in his childhood no poverty was known in West Branch. People were happy. They were not subjected to the fluctuations and downturns of the Chicago market that in later days sometimes wiped up to 50% of their earnings by speculators. People now moved to anxiety from comfort.

Consumer capitalism took hold as the religion of the lands. Samuel Strauss said, "The past half-century has seen a battle waged against human suffering, the like of which has never been known; and the results in serums and anesthetics, in hospitals and dispensaries, in prisons, reformatories, social settlements, model tenements and all the host of easing philanthropy, are astounding when compared with conditions even as recent as our fathers' day. Someone has called this the age of the ambulance." (Samual Strauss, *Richmen and Key Men*, The Atlantic Monthly, Dec. 1927).

How does *TIME* Magazine (June15,1996) describe the state of Americans after 70 years of that statement of Strauss? "Americans are anything but satisfied. They are scared of being left behind in a new era. They are frightened about disappearing jobs, schools that don't teach, unaffordable health care, spiralling number of homeless, polluted environment and senseless crime by ever younger children with machine guns. They are sick of words." But it is words that sold them the new consumer-capitalism culture and they got in return anxiety, lower comfort, higher crime rate, and unaffordable health care; and this is happening at capitalism's best days of the 1990's. Yet, infinancialism is determined to export this form of capitalism to the world.

Consumptionism became the new creed for consumer capitalism and it centered around the creation of heavens on earth through a higher standard of living that can be bought by consumption and which in turn will bring happiness. Happiness was transformed to a commodity that can be acquired by consumption. As the United States became cash-rich and enjoyed a larger trade surplus after WW1 investment bankers expressed confidence about the potential of money markets and investment banking in the United States. Cars and trucks assisted in the transportation of goods throughout the country. Department stores were started all over the country with new merchandising and sales techniques. Banks were branching quickly to exploit the money supply. Movies and radio joined newspapers in spreading the new culture. A new service economy was developed that employed a great portion of the employment to an extent President Hoover acknowledged its effect in averting a critical unemployment. Chain stores were created. Bankers encouraged mergers and consolidations. After 1920, a national market began to emerge, and corporations became bigger and bigger. Small and independent retailers were weakened by the creation of the big chains. In 1886, only two chains existed in all businesses that operated 5 stores, whereas in 1929 about 1,500 companies operated about 70,000 outlets. The food business initially enjoyed the higher number of those chains.

Around the mid-1920's, film distribution to theater chains was controlled by 8 film companies. Early on, the "mergermania" was in heavy industry and manufacturing. Merger became the way to expand. The investment bankers were pleased to provide the services needed for "mergers and acquisitions." They actually promoted it. Between 1910 and 1930 the number of investment bankers increased about 400%. They assisted many local companies to become regional and many regional companies to become national. As in the present mergers and acquisitions, a financial economy was created which was interested in making money as its business, instead of making goods.

The biggest two firms that arranged mergers at that time were Lehman Brothers and Goldman, Sachs. Both started as commodity brokerage houses in the 19th century. Herbert Lehman, once a Governor of New York, got himself to the War Department Division and was in charge of supplying military personnel. In the age of the information revolution there was Michael Milken and his junk bonds. In the industrial revolution, consumerism brought Waddill Catchings who also was the merger expert and president of Goldman, Sachs. Among other things he created Goldman, Sachs Trading Corporation, an umbrella for some merged investment trusts. The purpose was to get people to buy securities at prices considerably higher than the value of the corporation's assets. All the investors were wiped out in 1930 when the corporation went bankrupt. Waddill Catchings and Goldman, Sachs nevertheless continued their other businesses.

The whole new culture depended on creation of demand through manipulating people's desire. The bankers and their intellectuals decided that stimulation of desire has no limit, and that once one desire is satisfied it brings with it another desire. "The American economy," wrote Catchings (*Land of Desire*, p.277) "had to stimulate new and underdeveloped desires." Within the 1920's, mergers became widespread from food to amusement. Catchings made a deal with Warner Brothers in 1925 and they bought one of the country's most reputable companies in the business and thus overnight the Warner Brothers became owners of the best film distribution system in the country. With more acquisitions Warner's assets went up 46 times in only five years! Louis Kirstein of Filene's and Fred Lazarus, Jr, of F and R. Lazarus in Columbus, Ohio, created one of America's biggest mergers that resulted in the creation of federated stores in 1929, assisted and advised by the investment banker.

Banks are stores for other people's money. Bankers are good at and powerful because they use other people's money. Holders of wealth and production are also good at using other people's brain-power. For this reason they forged an alliance with America's finest colleges and universities. They concluded that production was the easy part of the supply and demand formula, and they decided that the demand side can be controlled by manipulating the human desire which has no end. This will lead to endless growth and production. However, the control systems for manipulating the desire had to be studied and the resulting businesses must be managed by a science, that did not exist, therefore it must be created. Business had to be made a worthy profession. "No agency was doing more to help business become a worthy profession than Harvard Graduate School of Business," said Louis Kirstein of Filene's, who also chaired the school's fund-raising committee. The president of New York city's First National Bank George F. Baker provided a gift that resulted in Harvard Business School having its own administration building, dormitories and Library by 1927. Both Cornell and New York University were closely associated and financially dependent on the creators of the

consumerism culture. Ellsworth Statler was a major financial source to Cornell. Perry Straus of Macy's was not only a major financier of New York University, he served at its executive council that used to meet regularly in the 1920's at his store. He chaired its board of trustees as well. Also, around the mid-1920's Stanford established a graduate school of business to teach accounting, finance, marketing and transport. About the same time Northwestern University, Michigan, Wisconsin, California and Oregon got into the business of business schools.

"No educational institution in the world came close to Harvard in the way it served the practical requirements of corporate business and helped build the new mass consumer economy." (*Land of Desire*, p.288). And few individuals had more profound influence in the new mass consumer economy than a 1914 Harvard graduate: Paul Mazur. After joining the Army and several business experiences, he became the merger man at Lehman Brothers. Mazur, just as Catchings of Goldman, Sachs was an advocate of mass centralized merchandising. Mazur depended heavily on Harvard for help. Harvard considered itself as an unbiased institution with "scientific interest" in management problems of business. In 1924 a collaboration was made between the National Retail Dry Goods Association (NRDGA), Lehman Brothers and Harvard Business School in which the NRDGA entrusted Mazur to join with HBS to make a study on organizational trends in merchandising. Professor Donald David nominated a 1924 Harvard graduate Myron Silbert to join the study team. The three produced *Principles of Organization Applied to Modern Retailing* after one and a half years of research. This became the standard text book on this subject for the next half a century.

In 1928, Mazur published his book *American Prosperity*. Consumer Capitalism's culture can best be expressed in quotations from this book: "man's desires can (now) be developed so that they will greatly overshadow his needs ... Human desires seem to have no limits ... Give the world and his wife the funds with which to satisfy every need, desire and whim, educate the world and his wife to want, and the production capacity of the country will actually groan under the burden of enormous demand. There may be limits to the consumption of particular products. There is no theoretical limit to general consumption possibilities." (*American Prosperity: Its Causes and Consequences*)

Auxiliary institutions were created to promote the new culture. Instalment credit and personal finance institutions were devised so more charge customers are created, and charge business rose to double what it was within the decade of the 1920's. The department stores were redecorated, fashion modelling agencies and style agencies and consultants emerged.

Another evolution was taking place in the 1920's while the consumerism culture was spreading and that was the collaboration of big business and the government, each knowing and willingly accepting its role. The government, according to this government-big business alliance, is to serve business not to regulate it. A pillar to this philosophy was Herbert Hoover who oversaw its conceptualization as a businessman, and its implementation as a government public servant. As a businessman, he was a man of the world, a globalist before much talk was about globalization. And as a government public servant he was a director-general of the American Relief Administration, a Secretary of Commerce for seven years and a President of the United States from 1929 to 1933. Born in America in 1874, he travelled to and worked at several countries. He was a mining engineer and operated in South Africa, and even in China. In 1908, he left engineering to finance and called himself "professional speculator." He lived in London. By 1912 he was a multimillionaire.

After WW1 America experienced its worst depression since the depression of the 1890's. The prices went into a free fall unequalled in American history and unemployment went to record high. The country was experiencing not only economic turmoil, but also political upheaval as people even talked about the possibility of a revolution. The Bolshevik revolution was only a few years old (*Robert Sobel The Great Bull Market: Wall Street in the 1920's*). At this time Hoover was appointed Commerce Secretary in 1921. Hoover immediately went to work and he became convinced that a great gap existed between production and consumption and he specified that bottlenecks existed in the marketing and distribution systems. However, probably Hoover's thinking was best expressed in one of his reports that the U.S economy proved the theory "that wants are almost insatiable: that one want satisfied, makes way to another. The conclusion is that economically we have a boundless field before us, that there are new wants which will make way endlessly for new wants, as fast as they can be satisfied."

The only problem, Hoover and his advisors decided was to learn to balance between production and desire! The consumption culture elite had now their man to oversee the government's

part in the spreading of the new consumption capitalism culture. He was a businessman who got into government to implement a vision and an agenda of businessmen. It was within his governmental service, that the alliance between business, government and universities became an institution that operated until today. Academics are brought by business people; business people and/or their intellectual academics get into government to see the implementation of an agenda that was worked amongst them mostly behind closed doors. Hoover thought that was the way it ought to be done as it is this institutional circuitry that really understood the economy, therefore such resolutions are better taken on technical and not political grounds. With the advice of Edwin Gay, first dean of the Harvard Business School and others, Hoover transformed the Commerce Department to an agency that serves American business with data they may need to control the economic forces and help balance production and consumption. Among Hoover's most trusted appointees to the commerce department, was Julius Klein, a Harvard-trained economist and historian. He was a man of vision " ... he dreamed of creating a seamless economic system without frontier or boundary and without conflict, a system of perfect liquidity that would allow for the "efficient movement of ideas, capital, and commodities." (*William Leach*, p.362)

Hoover's theories looked fine for a while. The country went out of the depression into the roaring twenties and when things looked good at the surface, the worst depression in American history was in the making. It unfolded in the Wall Street crash of October 1929 and it continued for a full decade.

The American economy did not get to the 1929 level until about 1939 and even then business cycle fluctuations were very severe. Swings that got 4 million people out of their jobs in only matter of months occurred even by the 1939. It was the WW2 that got capitalism out of the woods. Also it was the state capitalism of the new deal that ran totally opposite to the teachings of Adam Smith and Herbert Hoover. However, the consumer culture remained. This culture aided markets to move from community to regional to national markets. The next obvious step was moving to global markets. A plan was ready: the Grand Area. The institutions to implement it were defined, and created at Bretton Woods.

The consumption culture was elevated to be the religion of capitalism whereby people are promised heaven on earth. Cambridge-educated Keynes, a homosexual who enjoyed describing himself as "immoralist," endorsed this consumerism culture. Actually, he thought religions and ethics, especially protestants, must be removed from society since they advocate savings for the future and self-discipline now for rewards in the future and heavens. He promoted that one must enjoy it in the here and now -- not in the hereafter, and people must follow their pleasures and forget about thrift, sacrifice and ....later. Such a philosophy, according to Keynes, will create abundance and pleasure to all.

Nobody is allowed to attack this culture. As soon as Bob Dole was quoted in his presidential campaign of 1995 "that we must hold Hollywood and the entire entertainment industry accountable for putting profit ahead of common decency," (*TIME*, December 1,1995). He was immediately attacked by Oliver Stone who branded Dole's statement as a nineties form of McCarthyism. What Hollywood was doing was manipulating the human desire, the very foundation of consumer capitalism, which Bob Dole should have known better than to attack. It is the heart of capitalism.

Thus the two elements envisaged at the turn of the century for the creation of demand: consumerism and going global were now entrenched and institutionalized.

“In the wake of world war II old style colonialism gave way to neocolonialism. The neocolonial state has formal political independence but (in reality its economic system and thus its political policy is directed from outside)”.

*Holly Sklar*  
*P27 Trilateralism*

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## *Chapter 5*

### **WORLD'S GOVERNANCE BY THE ONE PERCENT CLASS (OPC) An American Empire & A Global Economy**

Within few years after the end of WW1, American capitalism went through a mild depression, then a roaring twenties, and then the greatest depression of all depressions that took over 10 years and another war for it to end. After a decade of massive government action the American economy hardly reached to its 1929 size. That by itself was against the ABC of American capitalism. The formula between big business and government was worked out in which the government accepted its role as the junior partner. The Council on Foreign Relations was created after world war 1 as a platform for building consensus among business and government to discuss and formulate policy. It can be said that the new world order that emerged after world war II, including the vision for a global economy and an American Empire, owed a lot for its creation to this Council. Even before the United States got itself into world war II, the Council took the initiative for joint action with the U.S Administration to define and sell the "war and peace" studies. These studies defined the new post WW2 global order. The American war aims were defined. The various financial and political institutions necessary for an American empire to exercise its global role were studied, finalized and detailed. Among those were the United Nations, the International Monetary Fund and the World Bank.

The first question that the Council and government planners collectively decided to explore was if the U.S was self-sufficient and can do without the markets and raw materials of the British Empire, Western Hemisphere, and Asia. As the studies showed a need for those markets and these raw materials, it was concluded that an American Empire had to replace the British Empire after WW2 without necessarily taking the name of an Empire, nor using the same techniques the British had to use.

The British Empire was taking the raw materials from its colonies at one part of the world, manufacturing it into goods at another and selling it as products at a third part. The United States can

now do the same things to get the same results. The ways need not be the same. George Ball, an undersecretary of state and an investment banker @ Lehman Brothers explained how the transnational company can do these functions. In an article "Cosmocorp: The Importance of Being Stateless" he wrote that multinationals are engaged "in taking the raw materials produced in one group of countries, transforming these into manufacturing goods with the labor and plant facilities of another group, and selling the products in still a third group". This neocolonialism through transnational companies became a result of "the benefit of instant communications, quick transport, computers and modern management techniques....".

Thus, the age of corporate imperialism replaced the old colonialism of physical occupation of other states. It is more devious and insidious than direct colonialism. It is almost invisible.

This new form of imperialism had its own prerequisites to function properly:

- Free trade must be ensured to enable global markets to be opened to corporations.
- Free access to raw materials of other people and countries, and without stress regarding price or quantity.
- Free hand to financiers to invest and collect their profits without barriers.
- Necessary international and financial institutions to manage the new global vision.

The Council on Foreign Relations alone or jointly with the government, many of its members were or are council members, created the process of planning the new post-WW2 American imperial order with thoroughness and high degree of professionalism. The WW2 broke in September, 1939. Few were as qualified as Council Director Isaiah Bowman to take the initiative to start the war and peace studies. He was a member at the "Inquiry" study of WW1 and was determined that a repetition to the post WW1 two decades of instability and depressions should not be allowed. Even by that time in 1939, the U.S economy did not fully recover.

On 12 Sept 1939, 12 weeks after the outbreak of the war, Walter H. Mallory, the executive director of the council, and Foreign Affairs editor Hamilton Fish Armstrong met in Washington with Assistant Secretary of State George S. Messersmith, himself a Council member. They presented a long-range planning project in which studies groups were to be formed by the Council and discussed with the State Department. The resulting recommendations will be confidentially and officially presented to the State Department and president F. D. Roosevelt. Roosevelt himself was known to be close to the Council, and his N. Y. town house when he was governor to New York was next door to the Council! In mid-December 1939 a central steering committee was formed to direct and co-ordinate the work of the various study groups.

The committee was made of:

- Norman H. Davis - chairman (Roosevelt's ambassador at Large)
- Walter H. Mallory - vice - chairman (Director of the Council)
- Alvin H. Hansen - professor of political Economy (Harvard)
- Jacob Vinor - professor of Economics - (University of Chicago)
- Whitney H. Shepardson - A corporate executive and a participant in the 1919 Versailles peace talks.
- Allen W. Dulles - An International corporate Lawyer (and later CIA director)
- Isaiah Bowman - president - Johns Hopkins University (and a leading geographer)

Five study groups were established:

- The Economic & Financial Group: Headed by Hansen & Vinor
- The Political Group: was headed by Shepardson.

- The Armaments Group: was headed by Dulles
- The Territorial Group: was headed by Bowman.
- The peace Aims Group: was later headed by Armstrong.

About 100 people were involved in these studies for the duration of six years. The Council members and the study groups met regularly. Such long-range studies heavily depended on the Council since the State Department was not staffed for such policy planning until after WW2.

One of the first conclusions by the Council and the study groups was in order for United States economy to function properly it needed free access to markets and raw materials of other countries and areas specially those of the British Empire, the Far East, and the entire Western hemisphere. This was considered as a “national interest” or as “a national security interest” as the term evolved during the cold war. The Economic & Financial Group memorandum (E-B 19) was issued in October 1940 in which Japan was singled as an impediment to integration of the Far East in the post WW2 order as Japan had its own strategic plans in that area. Japan was judged unwilling to play a subordinate role to be assigned to it by the United States. Actions were discussed that may prevent Japan from taking over southeast Asia, thus denying the United States access to these markets and their raw materials. Memorandum (E-B 26) dated 15 January 1941 titled “American Far Eastern Policy” said “The Philippine Islands, the Dutch East Indies, the British Malaya are prime sources of raw materials very important to the United States in peace and war; control of these lands by a potentially hostile power would greatly limit out freedom of action”. In addition, during WW2, occupation of these lands will disadvantage the allies war efforts. The proposed plan was to:

- aid China militarily (supplies) to distract Japanese troops & pin them in China.
- strengthen naval and air defenses of southeast Asia, in agreement with the British and the Dutch.
- cutting off some supplies of war materials on Japan.

This memo was handed to secretary of State Cordell Hull. The aid to China and cutting of war supplies were implemented within few months in 1941 and they played a major cause that led to American entry into WW2.

Memorandum (E-A 17) of 14 June 1941 discussed “one world economy” dominated by the United States. But as an interim measure, memorandum number (E-B 34) of 24 July 1941 defined the Grand Area concept as consisting of “Western Hemisphere, the United Kingdom, the remainder of the British Commonwealth and Empire, the Dutch East Indies, China, and Japan itself....” This area, it was decided, was needed as a minimum for the United States economy to function without the need for major readjustments.

The Grand Area was considered a core area to which the post-war devastated economies may be interweaved. The more countries added to the Grand Area the better. This memorandum (E-B 34) concluded a need for the creation of:

- International financial institutions to stabilize currencies, and
- International banking institutions to help investment and development in backward countries.

In October 1941, the idea was further refined and Winfield W. Riefler of the Economic and Financial Group proposed an “International Development Authority” to stimulate investment in underdeveloped countries, increasing their purchasing power and as a result demand for U.S. products. On 1 November 1941 Alvin H. Hansen proposed an international “Reconstruction Finance Corporation” to be established by governments even during the war. The Council adopted both proposals, and sent their recommendation to president Roosevelt and the State Department. Harry Dexter White of the Treasury Department worked out the technical details to the proposed two above mentioned institutions. In a memo in March 1942, White produced a memo that led to the creation of

the International Monetary Fund and the World Bank. Secretary of the Treasury Morgenthau gave this to Roosevelt in mid-May. A cabinet committee was formed to refine the plan further and an American Technical Committee was formed to do the actual planning. The plan was approved and the implementation was flexible to be around the end of WW2. 44 nations were invited to Bretton Woods, New Hampshire in 1944, and the financial institutions for post WW2 global capitalism were created.

It was only in late 1941 that the Department of State created "The Advisory Committee on Postwar Foreign Policy". The leading planners of the Council filled the leading positions in this committee. However, a smaller "Informal Political Agenda Group" evolved that were called by Roosevelt as his "postwar advisors". They were Hull, Welles, Davis, Taylor, Bowman, and Pasvolsky. Five of them were Council members. This small group directed the agenda of the Advisory Committee, and it was them who drafted the United Nations Charter.

Thus, a framework to a political institution for world governance after WW2 was created also. Since the methods of extracting other people's resources can now be done through corporate imperialism, with the United States American Empire to guarantee free movements of money and goods, colonies will soon be given "independence", in a way where access to those nations markets and raw materials are secured "without stress" to the transnational corporations. Corporations can now do the exact function of colonialism. Local elites of the newly independent colonies will have common interests with transnational "elites". Following their own material interests they will ally themselves against any national interest that may be in contradiction with transnationalism. All transnationalists, by definition have no national loyalty. This new system was intelligent and invisible. For the colonialists to collect their profit, they had to have physical presence, risky at times, and had to operate under army and police protection. Now, local elites are motivated by shared values and materialistic gains so they have identical objectives with the transnationals. And instead of a cumbersome process, transnationalists get their money through wire and electronic transfers. The first study by the economic subcommittee of the Advisory Committee on Postwar Foreign Policy emphasized the interrelationship between domestic and international economic policies. The war assisted the United States to get out of a long Great Depression and everything must be planned so it will not reoccur after the war. The U.S was geared for exporting greatly during the war and much unemployment may result if exporting capacity was not maintained. To do so, the planners concluded, the United States had to be involved in the internal affairs of other industrial and raw materials-producing countries. Rather than to be done in the crude colonial manner, it can now be done by U.S dominated international institutions. This made the creation of these international governance institutions not only a convenience but a necessity for the post WW2 U.S economy, and the U.S post WW2 empire.

It was Isaiah Bowman who suggested that the United States can exercise effective controls on the x-colonies and weaker areas of the World through a United Nations.

The United States must have the needed strength to assure "security" yet it must "avoid conventional forms of imperialism". Note that it was the conventional form of colonialism to be avoided but not imperialism itself. The United States began drafting the U.S proposal for a United Nations. The Agenda Group began that job and the declared purpose of the United Nations was maintenance of peace and security around the world.

The draft for the U.N proposal was made in seven months between December 1943 and July 1944. Secretary of State Hull approved the draft and gave it to three lawyers to ensure it has no contradiction with U.S constitution. As the lawyers saw no problems, Hull and others discussed the draft with president Roosevelt, who not only approved the draft but issued a statement to the American people on the subject.

By the end of WW2, the United States had its plans ready for a Grand Area that should lead to a global economy. It created all the international political (U.N) and financial (IMF, World Bank) institutions to lead an American Empire that superseded the British Empire. The American Imperial Power was to be exercised through innovative, genius & invisible systems that continued to be

modified tactically, using the new innovations & communications and management systems. The strategic aim of creating a global economy under American Capitalism Patronage was never changed.

The United States - led western empire won the war. Europe, Japan and many parts of the world were devastated. The Soviet Union lost millions of its people, and much of its infrastructure. The United States was certainly in position to impose its version of the post war 2 order, at least as far as its allies and the Grand Area were concerned.

If it is true that the withdrawal of the U.S loans to Germany in 1928 caused an economic slump that was one reason for the rise of Hitler, and if also intra capitalist rivalries led world economies into a depression, the United States was determined to prevent a recurrence of such events and to lead the global capitalist order. A United Europe of some sorts would make the U.S management of global capitalism easier as long as this Europe remains within the role defined to it by the United States.

In 1945 the United States decided to stop its lend-lease not only to the Soviet Union but also to Britain. This was probably understood as far as the Soviet Union was concerned, but some assumed that it was also a message to Britain that a new post WW2 order is being reconstructed, and that it was the United States that was calling the shots. Once that was made clear, European reconstruction became an American priority. The Marshall plan for European recovery was approved by congress in 1948, and a \$17 billion dollars aid package was allocated. The Marshall plan called for rapid economic deregulation and looked forward for an increasingly United Europe in the political, economical and military areas at least. The Organization of European Economic cooperation (OEEC) was created which was transformed to an OECD: Organization for Economic Co-operation and Development in 1961, with the U.S & Canada included as full members. The European Economic Market (EEC) also known as the Common Market was established in 1957 creating one large free-trade zone. The original six members were France, West Germany, Italy, Belgium, the Netherlands and Luxembourg, but more countries were added in the following years. The core of the western military defense for Europe was the North Atlantic Treaty Organization (NATO) which depended heavily on the United States.

The above organizations were well known to the people all over the world. But one of the most influential non-transparent institutions was called simply the "Bildberg". It took the name from the Hotel at which the first meeting was held at Hotel de Bildberg, Oosterbeek, Holland in May 1954. Participants are restricted to North Americans and Western Europeans. And it is not ordinary Americans or Europeans who qualify as Bildberg participants. They are only top transnational corporations executives and top national leaders & politicians. Some alledged that the Bildberg is a super-secret government of the world and others try to alledge it is a nice get -to-gether of the rich and famous. It is at least one power tool of western collective management of the world order. The Bildberg is a place where the American and European economical and political heavies attempt to reach and formulate policy decisions creating the needed consensus so it becomes on the agenda of the elites for future legislations and implementation. Since participants are among the most powerful within their disciplines, once a policy is adopted, it will have the many powerful channels available for the participants to spread it and see it through the bureaucratic processes.

Joseph Retinger had extraordinary connections to prime ministers, industrialists, labor leaders, intellectuals and even revolutionaries. How he acquired these connections is not fully understood. He however, was a top aide to General Sikorski, head of the London-based Polish government in exile during WW2. He, after the war, became secretary general to the Belgian Prime Minister's Independent League for European Co-operation (ILEC). He later became secretary general to the European Movement. W. Averell Harriman was U.S ambassador to England and for one reason or another he arranged a trip to secure support allegedly for the ILEC. He met financiers, business people and politicians. Retinger said he received their support. While back in Europe Retinger felt a need for dispelling the Anti-Americanism that was taking force in every European nation. He worked at a plan for an Atlantic-European reconciliation among leaders of both sides of the Atlantic.

Some friends suggested prince Bernhard to organize and approach people in both sides of the Atlantic. A list was drawn up of top people from Europe. The group was finally made from Paul Van Zeeland (Belgium Prime Minister). Alcide de Gasperi (founder of Italian Christian Democrats). Antoine Pinay (French Prime Minister). British Labor Party leader Hugh Gaitskell, Max Brauer (Mayor of Hamburg). Guy Mollet (leader of the French Socialists and a future prime minister) and so on.... Prince Bernhard then traveled to the United States to organize the membership at the other side of the Atlantic in the United States. He met an old friend, Walter Bedell Smith who was at this time director of the Central Intelligence Agency. Smith was busy organizing Eisenhower's new administration and Smith assigned the matter to a presidential assistant: C. D. Jackson. An American list of participants was drawn and the first meeting took place at Bildberg in the last three days of May 1954.

Among the participants of the first meeting were David Rockefeller, J. H. Heinz 11, Dean Rusk (later secretary of State), Denis Healey and the other participants previously mentioned.

Prince Bernhard continued as chairman of Bildberg from its start until 1976 when he was charged with corruption charges. Joseph Retinger continued as the Secretary General of Bildberg until his death in 1960. British Conservative former prime minister Lord Hume became the chairman after Bernhard resignation. The U.S secretary for the Bildberg was Joseph Johnson, who was a member of the State Department's policy planning committee for the Marshall plan. Johnson was on the Council on Foreign Relations (1950 - 1974). In 1955, Dean Rusk and W. Bedell Smith (CIA) became co-chairmen. Bildberg meetings are normally held at secluded locations away from the public. The 1974 meeting was held at Edmond de Rothschild's Mont d' Arbois Hotel, Megere, France. President Eisenhower always had one of his people attending Bildberg conferences.

Most of the State Department positions of president Kennedy were from Bildbergers. The list included the Secretary of State Dean Rusk, undersecretary of State George Ball, George Mc Ghee, Walter Rostow, Mc George Bundy and Arthur Dean. Many of those were also Council on Foreign Relations members. Many of the Trilateral Commission's members were Bildbergers such as vice president Mondale, National Security Advisor Bizezinski, Treasury Secretary Blumenthal and others.

The Steering Committee of the Bildberg is made of about 25 leading Bildbergers and they hand pick participants and plan the meetings. David Rockefeller and Agnelli of Fiat are among the Steering Committee members, but they also became members of the Trilateral Commission executive committee. Other Bildberg Steering Committee members included Edmond de Rothschild, the French Banker, German columnist Theo Sommer, C.B.S former Chairman Arthur Taylor. The Bildberg continues until to-day to exercise extreme importance. One year before Bill Clinton nominated himself to presidency, his friend and confidant Vernon Jordan took him to that year's Bildberg meeting. It seems that it helps to pass through Bildberg to even make it as a U.S president! Bildberg membership was exclusive to Europeans and North Americans. To Joseph Retinger Europe inhabitants "represent the most valuable human element in the world".

In 1970 Zbigniew Brzezinski wrote "Between Two Ages: America's Role in Technetronic Era". A technetronic society was defined as one "that is shaped culturally, psychologically, socially, and economically by the impact of technology and electronics - particularly in the area of computers and communication" (P9) Brzezinski proposed community links between the three "technetronic" areas, the United States, Western Europe and Japan - as first phase, adding Australia, Israel, Mexico and other advanced countries as appropriate. He went on that this emerging community of "developed nations would require some institutional expression". The idea of institutions like the "Trilateral Commission" and G-7 were part of the conclusions that can be deducted from "Between Two Ages". Transnational forces were ungluing traditional sovereignty of nations. Transnational corporations, transnational banks, transnational organizations are now playing larger and larger roles in shaping global politics and economics. Even a class of "transnational elites" was created which advanced transnational issues over national ones. Rather than improving, the United States relationship with Japan & Western Europe deteriorated as a result of the unilateral cancellation of linkage between the dollar and gold by Richard Nixon in August 1971, and some of Nixon's other economic policies.

Professor Zbigniew Brzezinski (Columbia University) and in co-ordination with the Brookings Institution organized Tripartite Studies among Brookings Institution, the Japanese Economic Research Center and the European Community Institute of University Studies. Rockefeller was impressed with the result of the studies. Rockefeller and Brzezinski presented their proposal for a "Triateral Commission" at the Bildberg meeting of 1972. Rockefeller assigned George Franklin to define participants in Europe and in Japan to a "Trilateral Commission".

A planning group of 17 persons met at Rockefeller's estate at Tarry town, New York. Participants were:

- From USA: Rockefeller, Brzezinski, Franklin, Fred Bergsten (Brookings Institution), Robert Bowie (Harvard), Mc George Bundy (Ford Foundation), Bayless Manning (President of Council of Foreign Relations), Henry Owen (Brookings Institution).
- Western Europe: Karl Corstens (Christian Democratic Leader in the Bundestag west Germany). Guido Colonna di Paliano (former member of the commission of European Community), Francois Duchene (University of Sussex), Rene Foch (Executive committee member of Partie des Republicans Independents), Max Kohnstamm (Director of European Community Institute for University Studies).
- From Japan: Kichi Miyazawa (Former Minister of Foreign Affairs), Kinhide Mushako, (Sophio University), Saburo Okita (President of Overseas Economic Co-operation Fund), Tadashi Yamamoto (President of Japan Center for International Exchange).

At the end of 1972 and after "approvals" from all concerned the following designations were made:

- Gerard Smith (Former director of Arms Control and Disarmament Agency) as U.S. Chairman.
- Tokeshi Watanabe: (Former President of the Asian Development Bank) as Japanese Chairman.
- Max Kohnstamm: as European Chairman.
- Zbigniew Brzezinski: Director of the Commission starting July 1973.

The Commission became official in July 1973. Co-incidentally or not, the founding session of the Executive Committee was held in Tokyo between October 20-23 1973 during the 1973 October war between Israel and Egypt & Syria. Resulting from this war as discussed elsewhere, was an oil embargo and increasing oil prices several folds. Without the mechanism of a Trilateral Commission an already strained relationship between the U.S and its Western European and Japanese allies might not have absorbed the oil shock, specially that many Japanese and Europeans feared an "American Plot" behind the 1973 cancellation of Bretton Woods system and the 1973 oil shock of the black gold.

At the Tokyo meeting Japanese Prime Minister Tanaka made the principle address and the commission participants adopted the "Statement of Purposes" presented.

The irony about the "Trilateral Commission" was the fact it was forging a new global order and creating a new international system in the absence of Third World participation. Actually the rising Third World call for a new International Economic Order was on the agenda of the May 1975 full commission meeting held at Kyoto, Japan.

The membership list of the trilateral commission is extremely impressive. It combines the financial, media, academia power in the United States - the one percent elites. Most of the presidents of the United States came from the trilateral commission (Carter, Bush, Clinton are Trilateral Commission members). Most of the National Security Establishment members are trilateralists.

Brzezinski, became Carter's National Security Advisor. Henry Kissinger once he left his job in government went to become a member of the Executive Committee of the Commission.

If we list some of the commission members in the Carter Administration being the first elected after the creation of the Trilateral Commission, and if we also list in the last administration of president Clinton, the power of the commission becomes apparent. Those Trilateralists in the Carter Administration were:

- Jimmy Carter, President.
  - Walter Mondale, Vice President.
  - Cyrus R. Vance, Secretary of State.
  - Harold Brown, Secretary of Defense.
  - W. Michael Blumenthal, Secretary of Treasury.
  - Zbigniew Brzezinski, National Security Advisor.
  - Warren Christopher, Deputy Secretary of State.
  - Paul A. Volcker, Chairman of Federal Reserve Board.
  - Andrew Young, Ambassador to the United Nations.
  - Anthony M. Solomon, Undersecretary of the Treasury.
  - Sol Linowitz, Special Mid-East Negotiator.
  - Richard Holbrooke, Assistant Secretary of State.
  - Samuel P. Huntington Co-ordinator - National Security Disarmament.
  - John Sawhill, Deputy Secretary of Energy.
  - Paul Warnke, Director, U.S Arms Control and Agency.
  - Hedley Donovan, Senior Advisor (Media).
  - Lloyd N. Cutler, White House Council.
  - Robert R. Bowie, Deputy to the Director of Central intelligence for National Intelligence.
  - Lucy Wilson Benson, Undersecretary of State for Security Assistance.
- (Trilateral - P91)*

Trilateralists at the first Clinton administration included Clinton himself along other key cabinet and other positions that included the National Security Establishment, State Department, and Treasury. Alan Greenspan of course heads the list. The list included Warren Christopher the Secretary of State, Bruce Babbitt the secretary of Interior, Henry Cisneros secretary of Housing and Urban Development, Joseph Nye Jr. Chairman of the National Intelligence Council & Central Intelligence Agency, Donna E. Shalala Secretary of Health and Human Services, Clifton Wharton Jr, deputy secretary of state and Peter Tarnoff, undersecretary of state for political affairs.

The European trilateralists are as impressive in their home countries as the American Trilateralists. Financial institutions, transnational corporations and politicians are heavily represented. Chapter four of "Trilateralism - Holly Sklar" list of trilateralist (1973 - 1979) lists among others:

- U.K : Edward Heath (x prime minister). Denis Healey (Former Chancellor of Exchequer), David Owen (foreign minister), Max Fisher (Ed: Financial Times), Mark Littman (Queen's Council), Reginald Maulding (Home Secretary), Frank Mc Fadzean (Chairman British Airways), Lord Carrington (Secretary of State).
- France : Raymond Barre (prime minister), Michel Debatisse (food and agriculture minister), etc....

- Denmark : Svend Auken (minister of labor), Ivor Norgaard (minister of environment), etc...
- Belgium : Marc Eyskens (minister of co-operative dev.), Jean Rey (minister for State), Henri F. Simonet (foreign minister), ..etc...
- Ireland : Mary T.W. Robinson (member of senate), Michael Woods (minister for State)....
- Italy : Giovanni Agnelli (president of Fiat), Arrigo Levi (columnist, La Stampa) etc..

A breakdown by major occupational category (1973-1979) SKLAR:

■ Business	123	members
■ Politicians	101	members
■ Banks	55	members
■ Academia	55	members
■ Labor	19	members
■ Media	20	members
■ Law	14	members
■ Organizations	15	members

“The collective power of the commission’s member is impressive” said David C. Korten in his book *when Corporations Rule The World (P138)*. They include the heads of four of the world’s five largest nonbanking transnational corporations.....; top officials of five of the world’s six largest international banks .....; and heads of major media organizations (Japan Times, Ltd; Le Poit; Time Mirror Co., The Washington Post Co.; Cable News Network (CNN); and Time Warner)”.

Some considers Trilateralism as an international conspiracy among the unelected ruling class of financiers, transnationalists and the media. Trilateralists claim they are trying to create consensus and policies among allies for a better global economy and politics. Others argue that the trilateralists are a secret supergovernment that controls the world. What all should agree upon are few basic facts. The trilateral commission:

- Is selected mostly from the one percent of societies OPC that control the biggest part of those countries wealth.
- Transnational corporations and transnational banks and financial institutions, are the majority in the commission.
- The commission develops political and economical policies. Even though trilateralists are selected not elected members, their policies become an agenda for the commission members to see it through the bureaucratic processes.
- The trilateralists get into and out of governments to see these policies implemented.

Supergovernment or whatever else one may call it, the Trilateral Commission and its affiliated organizations are bigger than governments. They are the power structure that makes or breaks governments. Governments come and go to execute their agendas. It may be a Republican George Bush or a Democratic Bill Clinton. They are both having the same trilateral agenda to execute. Elected officials can only look after the mechanics of getting them done.

They "no longer use bullets and ropes. They use the world bank and IMF."

Jesse Jackson

"In mid-January (1998) a delegation of senior officials, including Defense Secretary William Cohen, visited Jakarta. Their message to Indonesian President Suharto -- reinforced by a blunt phone call from (President) Clinton -- was simple: stability in Indonesia, a nation of 198 million people, was a critical U.S priority, and that stability was dependent on Suharto's following the IMF'S harsh prescriptions as if they had come from the hand of God."

*Newsweek*, February 2,1998, p.38

"In my opinion, the IMF is largely responsible for the Asian crisis."

Milton Friedman

Nobel Prize winning economist

*Time*, August 31, 1998, p.5

"Sound management of fiscal and monetary policies provides no guarantee against major economic crises."

International Monetary Fund, Sept 1998

## Chapter 6

### GLOBAL ECONOMY'S FINANCIAL INSTRUMENTS The Hand Of Financiers - Not The Hand Of God

The global financial instruments that were created or initiated by the 44 nations at Bretton Woods, New Hampshire in 1944 were meant to be the instruments for spreading the gospel of the global economy vision. These institutions were planned at the start of WW2 within the Grand Area vision and the Bretton Woods meeting itself was planned to give these institutions official birth by the end of WW2. These institutions were meant to be the hand of global financiers and they never were a hand of God.

To explain the real goals of these institutions if we allow ourselves to set aside the packaging in which they were presented to people at large:

- The IMF was the safety net of global financiers. They can lend recklessly if they chose, at times of high liquidity, and the IMF will guarantee them payment, come rain or shine. This is a total contradiction to the principle of free markets where both takers or givers of loans should take responsibility for their decision. In the IMF case, only those taking loans are held responsible. But financiers: heads they win, tails others lose.
- The World Bank as better known, (or the International Bank for Reconstruction and Development as it is officially called) has the basic function of creating demand for financiers money, mostly in infrastructure projects that fit the total picture of the global infofinancialism's master plan.
- The World Trade Organization's basic unpackaged function was to oversee deregulations of financial and trade systems to again fit within infofinancialism's globalization master plan.

The "World Bank and IMF" said David C. Korten "have worked in concert to deepen the dependence of low-income countries on the global system and thus to open their economies to corporate colonialism ... their governance and administrative processes are secret - carefully shielded from public scrutiny and democratic debate. Indeed, the internal operating processes of the World Bank are so secretive that access to many of its most important documents relating to country plans, strategies, and priorities is denied to even its own governing executive directors."

The scenario for IMF role in the global infofinancial order goes as follows:

- As the global financial institutions acquire liquidity and wealth they will encourage nations and corporations to borrow. Thus, they are simply creating demand for their money supply.
- Local politicians, often corrupt, align themselves with infofinancialism's agenda and drag their countries to sometimes borrow beyond its needs, and often beyond its means.
- Speculators, who thrive on speculation and volatility enjoy the resources to control both. They can control prices and sentiments in markets, aided by their financial and media muscles. They create bubbles to extract money from a national market until they have made their initial investments many times over.
- Their money is generally invested in speculative not productive investments. It normally stays as hot money that can make an automatic computer exit out of a country in matter of seconds.
- Countries that attempt to formulate their financial restrictions that affect the orderly exit of hot money will be branded as obstructionist to free trade and will be subjected to economic blackmail.
- When the global investors decide that an economy was extracted beyond its capabilities, they decide to leave that country. They leave also when better opportunities occur in different markets. As most of the global investors computers are on auto-pilot and are programmed mathematically on nearly the same parameters, all computers may start simultaneously their

automatic selling and exit of the target country. In no time, the country will be depleted of its reserves, and serious crises will occur.

- Speculation on a country's currency may lead the country to defend its currency until it loses all its defenses. Sharp drop in the value of the national currency will result, and the country ends up with no foreign reserves to pay even its short-term loans.
- Investors even speculate on the beleaguered country's currency as it is falling thus making more money in the downfall process of that country's economy.
- The country will have to decide to either go to the IMF (often in liason with U.S Treasury) or let the speculators take their loss to whatever loans that remained in the country, by simply defaulting on payment.
- To default may be the better option and it's probably the most business-like decision. That's what the IMF normally prescribe to the nations in trouble: let weak companies and banks go under! Such logic will not be accepted by global infofinancialism.
- Even when leaders of some of the troubled nations decided to devise their own national plans, they were pressured by the U.S to accept the IMF plans as "the hand of God!" Really such nations are not given a choice.
- Thus, the IMF-U.S bailouts are normally the only alternative.

The IMF prescription is always targeted to ensure repayments of the remaining loans of the investors that were "trapped" in the troubled country. This is done by reloading the troubled country enough to pay its loans. The whole IMF prescriptions will be directed to accomplish this purpose:

- Austerity programs that result in unemployment to millions of people along with higher value additional taxes normally tops the IMF requests.
- Restructuring that results in bankruptcies to many national companies that have no outside shelter -- as the transnationals-- to cushion the currency and interest rate hikes.
- National banks, financial institutions, and national industries will suffer the most and under such restructuring either liquidate or go bankrupt. They then become targets for take-over by the multinationals at distressed prices.
- The multinationals are generally not affected negatively by the fluctuation of currencies, as most of their activities are intra-company activities based on outside currencies. They actually benefit from the resulting cheaper local value-added such as labor and raw materials. These now become cheaper due to the devaluation. The disasters of the national companies become the blessing for the transnationals.
- The distressed country's standard of living will fall. The purchasing power of the people will drop, social benefits will be reduced as it is always part of the austerity package of the IMF. The IMF bailout is always an opportunity to impose the principles of infofinancialism at the distressed country and to request its borders to be opened to multinationals under the name of free trade.
- Cheaper labor and raw materials will promote a surge in exports and higher foreign reserves needed for repayment of loans. Export industries will flourish but the majority of industries that were geared for domestic markets will be weakened. Often they will not withstand the competition from across the borders that come from bigger or more competitive economies at a time such industries suffer prohibitive high interest rates that came with the IMF packages.
- The country will be requested -- always as in IMF prescriptions -- to sell its jewel and prime facilities to private but mostly foreign investors. As in Mexico, such facilities included telecommunications, ports, and public utilities. These are the same facilities that the government borrowed heavily to build!
- The investors once repaid, may come again, to create another bubble, extract more wealth, burst the bubble and bring the IMF again. Mexico had two such cycles and two IMF bailouts in about 10 years!

One of the main reasons for the creation of the World Bank was to finance development projects in Europe, (especially after the WW2) and other countries, to support their growth. This growth was to help them stand against communism and also to assist capitalism's growth. However, Europe had the Marshal plan after the war and World Bank lending to Europe was minimal totaling

about \$500 millions only within ten years. The Marshall plan gave Europe 80 times that much in that period (about \$42 billions) all in the forms of grants and concessional loans.

The World Bank, having decided that Europeans are not its type of clients for reasons stated above, started to concentrate on the developing countries. One early example was Egypt which wanted to build an Aswan Dam on the Nile. The project secured World Bank loans which was abruptly withdrawn for political reasons by John Foster Dulles, who decided that Egypt must be penalized for its arms agreement with an USSR country. This action prompted Nasser of Egypt to nationalize the Suez canal to secure revenues for the Dam project. This early episode identified the World Bank as a dangerous instrument that can be used by cold war American politics. Developing nations were generally careful to approach the World Bank, especially by the economic group that favored nationalist-flavor-economy and import products substitution that normally will result in decreasing the need for foreign reserves to finance imports.

This group favored the protection of national markets and resources from "global" economy and then was generally suspicious of the financiers and international lenders. Within each country however, existed an elite that were schooled at the west and its institutions and they were receptive and aligned with the World Bank ideology. These Transnationalists became the natural allies of the Bank and consequently accepted their national economy to be annexed to the global economy.

The first group -- the nationalists -- held power in the fifties and the second group -- the transnationalists -- were normally the more western-educated technocrats who interacted with multinational institutions such as the World Bank. The transnationalists were aided to head their national institutions that were involved in planning and finance.

Two schools in this economic debate emerged: the nationalist promoting concentration of industrialization on import-substitute strategies, a policy oriented on self-reliance but which was contrary to the IMF and World Bank stated mandates of opening economies; and the transnationalists who advocated the creation of export-oriented industries to serve foreign markets. They advocated export-led strategies which were in line with the IMF-WB mandates. Recognizing these barriers the Bank created "The Economic Development Institute" and started a process of building institutions in the developing countries with staff from the transnationalists and with additional training at the Development Institute if needed. National institutions were created & they were meant to be autonomous from the government and its bodies and ministries and were trained to become regular borrowers of the World Bank. Such were the many "Development Boards" and "Water Authorities" and "Telephone Authorities" and "Port Authorities". The World Bank ensured that these national institutions operated with maximum autonomy from their government, and they were mostly staffed by pro-western transnational technocrats who had strong financial and professional ties to the Bank.

The sudden increase of oil prices in the early 1970's, resulted in huge petrodollars surpluses by the OPEC countries which were deposited at major banks. A demand for this money must be created, i.e., loans to the developing countries. The institutions for loan demands were in place and the debt and loan cycle was started. Within the decade of the seventies low income countries' debt increased from \$21 billion to \$110 billion. As interest rates increased in that period many borrowers became over-extended which threatened that they may default on loan and interest repayments, which in turn was putting the global financial system in jeopardy.

Playing the role normally assumed by court-appointed receivers in bankruptcy cases the IMF and WB will impose their dose and prescription on the indebted nations that falters in its payment obligations. They call these measures structural adjustments. These adjustments are meant to make economic changes that will result in channelling the country's resources and capabilities towards debt repayment. The country will be requested to open its economy to the global economy. It will be requested to deregulate its financial system so that financiers' capital can feel at home within the indebted nations economy. Actually the basic two objectives in any such "rescue" packages are meant to serve the global financial institutions. First by ensuring their money is repaid and second by ensuring that they will have access to the victim-nation markets through deregulation and "free" trade. Often, national companies that were created during the import-substitution economic policy will crumble and will go bust, and it will be taken over by the mighty multinational corporations which will now enjoy complete access to this market. The world of multinationals intracompany trade is not free to the national companies. Such companies will become more and more disadvantaged. The IMF

is known to recommend to let those "weak" companies go bankrupt as better for them and better for the economy!

From 1980 to 1992, as a result of the open market, imports of low-income countries increased from \$6.5 billion to \$34.7 billion. Therefore, as a result:

- International debt increased from \$134 billion \$437 billion
- Interest payments increased from \$6.4 billion \$18.3 billion

Rather than decrease debt, under the direction of IMF, the debt was increased. Countries become virtual colonies to the IMF and the global financial system. To approve rescheduling loans, they will dictate fiscal and trade policies, civil services organizational requirements, and related labor laws. They even dictate budgetary policy for the indebted nation.

The indebted country leaders who sign foreign loan agreements mortgage their countries future finances normally without public knowledge or approval. The public, however, will be the one who must bear the consequences.

Technically, the WB is owned by its member-governments. The World Bank depends mostly on the pledged amounts that can be called by the Bank from the member nations when needed. The Bank borrows from the financiers to meet its financial obligations - using the government pledge to secure these loans. Governments therefore will use taxpayers money to guarantee loans to be used to repay the very same financiers' banks! People's money will be paid or used as guarantee to ensure no risk to financiers money. Taxpayers and citizens of the indebted and guaranteeing nations will pay the price-financiers will collect; the IMF and WB are the tools.

Most of the newly independent nations of Asia and Africa won their independence from direct colonialism after the second world war. Prior to that, troops had to be sent to those countries, high commissioners, political residents or colonial governors were seen physically in the colonized nations. Even British companies in India had its own militia to ensure the process of transferring the wealth of other countries to its own. Now, transnational corporations and infofinancialism do the same job; the transfer of other peoples resources, and the job of corporate colonization is now performed by transnational capital -- not militia nor troops. It is done in a highly sophisticated manner.

At Bretton Woods, in 1944, it was decided to create the World Bank, IMF and the International Trade Organization. The latter was not created due to U.S. congress oppositions and GATT was created instead. However, that organization was finally created and named the World Trade Organization (WTO) in January, 1995 during an Uruguay meeting of GATT. The WTO mandate is to ensure the elimination of trade barriers and the free movements of goods and capital. The WTO is basically to guarantee also corporate and global financiers dominance in trade, finance and intellectual property rights. According to WTO rules, all member-countries must ensure that their laws, administrative procedures, and regulations conform to those of WTO and where they do not they must be changed to become in conformity. Any corporation, whether via its national country or through any other country member of WTO, can file a challenge against the law of another member country if it believes that a law denies it some benefits it expects from the new trade rules. The challenged country must prove that the challenged rules or regulations are purely for some specific scientific causes; otherwise, it must change these laws to conform to the norms of WTO. Thus, no member country is expected to favor its national products or give it preferential conditions. Obviously, national products that do not enjoy the economy of scale and other advantages associated with transnational company products will eventually be given a natural death. The interest of transnational corporations are thus guaranteed. Challenged laws must be changed through "reasonable measures" to be taken by the country concerned, this meaning if needed legislative, litigative or financial punitive measures against violators until they conform. A good example was given (*When Corporation Rules the World*, p.175) how such challenges by corporations can be used even against the public health of another country. "When Taiwan was working on a law that would ban cigarette sales in vending machines, restrict public smoking areas, prohibit all forms of tobacco advertising and promotion, and fund public education campaign to encourage people to give up smoking, the U. S trade representative responded to complaints from transnational tobacco companies by threatening to call for trade sanctions against Taiwan -- even though these laws would affect

domestic Taiwanese tobacco companies and U.S imports equally. After bans on foreign tobacco companies were (revoked) in Korea as a result of similar pressure, the percentage of male teenage smokers rose from 1.6 percent to 8.7 percent of the male teen population."

When the U.S wanted Japan to import \$15 billion per year of American cars or auto parts and the Japanese showed some resistance the United States threatened to impose restrictions against Japanese cars by adding new tariffs. When reminded that imposing tariffs was contrary to the age of WTO which was just signed, the U. S trade representative responded that WTO or not that is what the U. S will do. The Japanese had to accept the United States request and once more the new world order proved that might is right.

Global infofinancialists assume that the mighty power of U.S.A and the IMF will provide them with timely "bail-outs" to secure their loans against any miscalculations or adventure they may have encountered in conducting the core of their business, i.e. risk analysis and lending. The burden of such miscalculations must fall on both parties of the loan, not only the recipient of the loan. Since loan recipients will be under stressful conditions they normally are not in a bargaining position to even negotiate fair "bail-out" conditions. The infofinancialists however, are ignoring a "law of unanticipated consequences." Somebody may just decide that the benefits of default exceeds the benefits of IMF-bail-outs and may decide not to accept the harsh IMF prescriptions. This somebody can be anybody, even a Suharto who was aided to power by the CIA during the cold war days to crush the rival of capitalism at that time. After he was visited by top advisors from the Clinton administration, including a phone call by Clinton requesting Suharto to consider the IMF package as if it was coming from the hand of God, Suharto still believed that the IMF is nothing but the hand of financiers. By the time this chapter was written in March 1998, Suharto got himself elected for another term and at least for now he seems prepared to tell the IMF to go to hell with its "bail-outs". Infofinancialists are not sure if Suharto is playing a game of brinkmanship to secure better conditions from the IMF or the measures that Indonesia is now contemplating are for real. Such measures include:

- Fixing the national currency Rupiah at 5,000 to the dollar twice its current value now, but less than what it was few months ago.
- This requires imposing capital controls contrary to what IMF and free-market economists advocate and a serious deviation to what global infofinancial capitalism is trying to achieve.
- Fresh capital injection inside the economy may be via two existing Islamic banks. If needed, a third may be established.
- Indonesia will "dump" enough of its huge natural resources such as oil, timbers and precious metals to secure the needed hard currency for its foreign purchases.
- Indonesia may formally default on its loan repayments thus forcing global financiers to take their responsibility in the lending process risks.

Many western economists who come from within the global infofinancial system's establishment argued that defaulting may be a better option for countries such as Indonesia than acceptance of IMF bail-outs. They argued that bailouts are really to assist the financiers get paid without paying for their business miscalculations and risks. If defaulting may be better for a distressed country it certainly is not better for the global financiers who sit at the top of the global power structure. Being in that position they will attack savagely anybody who stands in the way of the global order they have so carefully nurtured. Such a confrontation with the IMF may be more critical than Suharto realizes, especially that his national measures contain certain elements that spell danger to the global extractive global financial system. The Indonesian measures may trigger a modern economic "domino effect" that may spread to other countries such as Korea and Thailand. It may seriously damage IMF credibility and may cause huge losses to the global lenders as a result. Such a national bail-out is dangerous in that it stands in the globalization of world markets. Worst yet, it introduces new variables to the world financial system such as Islamic banking which operates away from interest rates. All these factors have some serious and threatening conditions to the world of the financiers. For those reasons, one can assume that the owners of the power structures in global capitalism will use all the tools within their reach to make the implementation of such a national Indonesian plan extremely difficult if not possible.

He who gives may take. Those who gave Suharto the power against Sukarno in the 1960's at a cost of 1,000,000 Indonesian lives, may take that power away.\* If needed, the mighty imperial power of the United States and its "intelligent" institutions are always there ready to help. But ultimately, if Suharto did not make it this time, somebody, somewhere else will.

*BusinessWeek* descriptions (September 14, 1998, p.26) of IMF policies as misguided that make bad situations much worse are very strong words that may have been considered as sins not a long while ago. \*\*After all, the IMF policies are only part of an IMF-U.S. Treasury-Wall Street consensus: the Washington consensus: "Tight monetary policies imposed by the International Monetary Fund and pressure from competitive devaluations have sent real interest rates sky-high throughout the emerging world. Banks aren't lending. Businesses are going bankrupt. The Asian middle class is being pushed back into poverty. The misguided tight-money policies of the IMF policies are making a bad situation much worse"

Responsible economists are now advocating the construction of a better financial system only after the crises of Asia started to threaten their own national economy. *BusinessWeek* (October 12,1998,p.72) commented: "U.S Treasury Department and IMF policy must change as well. Forcing Asian governments to raise interest rates, and cut public spending, when the problem lay in short-term private corporate borrowing, proved immensely destructive. Austerity is not the solution....The Asian crisis is at America's and Europe's shores. It has revealed deep flaws in the global capital markets -- in risk assessment, leverage, and oversight. It is time to construct a better financial system." It is indeed better to arrive to this conclusion even after the destruction of many economies in the world late than never. Even the IMF announced in September 1998 that, "Sound management of fiscal and monetary policies provides no guarantee against major economic crises." What then was the IMF guaranteeing other than ensuring loan repayments to the reckless financiers at whatever social and economic cost to the indebted nations?

If whole economies can now be wiped-out at incredible speeds, recent history just showed also that even nuclear super- powers can some times be made from a house of cards.

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\* Written before Suharto was deposed.

\*\* These last two paragraphs were added while reviewing the final book draft before going to the printing press.

“There are no rules in such a game (the cold war)... Hitherto, accepted norms of human conduct do not apply ...If the United States is to survive, long-standing American concepts of fair play must be reconsidered. We must learn to subvert, sabotage, and destroy our enemies by more clever, more sophisticated, more effective methods than those used against us.”

Former President Herbert Hoover  
A secret report to White House, 1954

“The law of nations. Somewhere that got lost in the fog of the cold war. We have become a national security state, a country mobilized for war on permanent basis, and we got into the business of saying everything is secret. Can we recover the memory of what we were before we became what we are now?

Can we rediscover a sense of proportion in the national security state? The task of purging the cold war from our institutions is enormous. It will require a sustained and determined effort.”

Senator Moynihan, *The Law of Nations*  
Harvard University Press, 1990 (*WHO*,p.360)

“This is how Americans like to think of their government. Its values are enshrined in beautiful monuments and noble inscriptions, the temples of our national faith. But for 40 years a secret government has been growing behind these stately tributes to American ideals, growing like a cancer on the Constitution.”

Bill Moyers  
*The Secret Government ....The Constitution in Crisis*

## *Chapter 7* **THE NATIONAL SECURITY STATE - PART I** **The Secret Government & The Invisibles**

Adam Smith wrote in the *Wealth of Nations* that “civil government so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.” He also wrote that the orderly society in the system of “perfect liberty” will operate within the drives and constraints for human nature which will produce “intelligently-designed institutions...” The National Security Act of 1947 may have been one of those most intelligent institutions ever created, which democratic or not, played a most instrumental role in the downfall of communism. One may term the cold war WWII, that was fought by proxy wars and invisible covert wars, and the institutions created by the National Security Act played the key role to manage these wars overtly and covertly as the conditions dictated. Covert action was nothing new. At the turn of the century the United States wanted to construct a canal connecting the two oceans at Panama, which belonged to Colombia. After Colombia showed reluctance, the United States engineered a revolution in collusion with the French Company that possessed the canal concession and was eager to sell it to the United States. As a result, the new country of Panama was created and the canal constructed.

Intelligence and counterintelligence are as old as history. Even about 400 BC, Sun Tzu wrote in China his book *Ping Fa, The Art Of War* and referred to five categories of secret agents quite similar to modern intelligence agents: agents in place, double agents, deception agents, expendable agents and penetration agents. He discussed counter intelligence and even psychological warfare. God advised Moses, according to the bible to send agents to spy out the land of Canaan. The prophet of Islam Mohammad requested some of the newly converted to keep their conversion secret and keep providing him with information about the plots of the new religion’s adversaries. A highly organized intelligence system of the Mongols allowed their leader Subotai to achieve great military successes against Europe in the 13th century at a time Europe knew very little if anything about the Mongols. The British intelligence was organized at the time of Queen Elizabeth I, and it continued to maintain the highest degree of secrecy from the times of the colonial days until now. The Director of the British Secret Intelligence Service (SIS) is called Mr. C. and remains anonymous to the public.

At the beginning of WW1 European and American intelligence was generally inadequate. Probably the underestimation of the German military power in 1914 was a good example on the inadequacy of intelligence at that time. When WW1 broke out, the United States Army intelligence was within the general staff and made up of two officers and two clerks. By the end of the war the total number went up to 1,200 officers and civilians. The predecessor of the National Security Agency, the American Cryptographic Agency, known as the “black chamber” was abolished in the late 1920’s by the Secretary of State who did not see it necessary to the United States to read “other people’s mail.” WW2 resulted in the expansion and creation of the intelligence business. The United States developed the Office of Strategic Services (OSS) to be its comprehensive organization for secret operations and intelligence. But the period after the WW2 -- the cold war -- witnessed an astronomical growth in the intelligence industry and national security organizations which moved to much more prominent position in the governance of Western “democracies.” By the end of the cold war, the American intelligence community became an institution that was made of over hundred thousand people, and a budget around \$30,000,000,000. And it all started after WW2 on how much centralization must be made among the many intelligence organizations that existed within various department and agencies.

The National Security Act of 1947 was a result of a compromise between those who advocated complete centralization of the intelligence services into one, and those who thought no centralization was needed. Therefore the cold war era was crowded with the following intelligence services: CIA, the Defense Intelligence Agency (DIA), separate Army, Navy and Air Force intelligence services, State Department intelligence, the National Security Agency (NSA), the Atomic Energy Commission (AEC) intelligence and of course the Federal Bureau of Investigation (FBI).

- Central Intelligence Agency (CIA) was created by the National Security Act of 1947 which allowed other departments to maintain their own intelligence services. The CIA was to operate under the National Security Council which was created by the 1947 Act. Also, a Department of Defense was created by that act.
- The DIA was created in 1961 to give the Secretary of Defense one central organization to produce and improve on the intelligence product. Rivalry among services of the various intelligence

services of the Army, Navy, and Air Force led to some unreliability of enemy power each tilting the enemy power and exaggerating it to get higher budget appropriation. National and high-level policy was thus to be produced by the DIA and the branch intelligence services were restricted to technical and tactical intelligence as well as to counterintelligence. The DIA became the military counterpart of the CIA.

- The Bureau of Intelligence and Research (INR) is the intelligence service of the State Department and its scope is the collection, analysis and dissemination of information about other nations with whom the United States keeps diplomatic relations. Such information normally will be political, economic and cultural, and assignments of the INR is carried out based on needs of the state department and/or the National Security Council.
- The Atomic Energy Commission Intelligence division (AEC) is a producer and consumer of information specifically in the nuclear field. It gives the necessary technical guidance to other intelligence services and follows nuclear development in other countries.
- The National Security Agency (NSA) was established in 1961 and quickly became the largest of all the intelligence community in number of employees and in budget. After the new revolution of the information age was kicked off by the age of man-made satellites, and after huge breakthroughs in electronic eavesdropping, the NSA became the electronic spy of the U.S. All sorts of highly secret devices of electronic espionage were discovered in quick progression. These electronic devices were installed on ships, airplanes, ground stations throughout the world and on satellites. The age of spying entered a new age with the use of electronics and computers and the data received through the NSA as will be discussed, gave the United States a decidedly great comparative advantage in the cold war. Suffice it to give an example: when the famous Korean flight that got into USSR territory was shot down, the United States immediately produced from its NSA surveillance the complete radio communication between the Russian Mig Pilot and his ground station command ordering the Mig to shoot the civilian plane. During the six-day war of 1967, the U.S spy ship Liberty "happened" to be by the Sinai Mediterranean coast intercepting all the communications of the Egyptian Army, and as some claim, jamming Egyptian Army command communications. A sister ship the "Pueblo" was seized a year later by North Koreans as it was collecting data on North Koreans and Soviet fleets in the area. Even at the very early stages of satellite photography, through imagery enhancement, NSA satellites could count Soviet tanks, and through refinement of the basic photography they can determine their working conditions. "Lacrosse" satellite system of the NSA had incredible capabilities. Using powerful computer & radar imaging photographs could be produced even if clouds were covering an area, and possibly seeing through buildings. This was an example of the intelligence revolution which combined the new revolution tools: computers and satellites. Now an AWACS plane could stay outside the international borders and again through innovations in electronics and computers can intercept a country's telephone and wireless communications. Through sophisticated computer programs, intercepted messages will be classified and directed to those concerned. All the air traffic to and from the U.S was intercepted. Some thought the individual privacy has been invaded. Initially satellites had to eject their films which created a lag time between taking the photograph and interpreting it. The secret breakthroughs that made KH-11 satellite possible, allowed nearly instantaneous pictures of the targeted object, as now pictures were transmitted in radio waves thus NSA knew what was going on at that moment "...But orbiting 500 miles above the earth, the top secret keyhole satellite can spot the (car license) plate. In the CIA's headquarters, a \$1 million 'stereo comparator', uses a laser-light pointer to measure objects in the keyhole photos down to one tenth of a micron. The giant machine is so precise that it's parked on a seven-ton slab of granite to isolate its sensitive mechanism from building vibrations. With three-dimensional measurements, the comparator can tell Delta Force the width of the wall it must blast through to rescue hostages... Its brains at Langley is a computer-disc farm in a room the size of a football field, plus seven giant silos (nicknamed "the seven dwarfs"), each containing 6,000 magnetic computer tapes that robots load. Before going on a mission, a spy can rehearse his or her route by sitting before a glowing video monitor. Tens of thousands of satellite photos are fed into the disc farm's Cray 4-mp supercomputers, which play back an animated cartoon of the alleys and bazaars the CIA operative would actually see on the street.... In exchange for favors to Washington, foreign countries received CIA satellite intelligence to locate valuable oil and gas

reserves." One can assume that such technological innovations were more responsible, along with other intelligence activities, in the U.S. winning the cold war more than any ideological superiorities if any can be found. Not only the former USSR, but the whole world became an open book to the NSA and other U.S. intelligence agencies. The NSA and other agencies made a point to provide assistance (and spy) on friends as well as on enemies. Many programs were created. One was to assist friends in their leaders security and intelligence agencies. They know the areas of agreement with their friends but they wanted to know the area of disagreements. So when American intelligence was "invited into the presence, office, palace and life of a leader, the CIA team learned a great deal -- schedules routines, the identity of those with real influence and real information, the quirks and peccadilloes of the friendly leader, his family, his advisors. There were also opportunities to plant eavesdropping devices, access to telephone lines, offices and living quarters. The communication gear issued to the security and intelligence forces was known to the CIA and the NSA, as were its precise uses, its frequencies and if applicable, the codes" (*Veil* by Bob Woodward, p.309). In the process of such assistance, the U.S intelligence agencies developed close relations with those they trained and such relations ranged from outright recruitment or as "sleepers-people" who could be pulled out for specific information or a specific task. Often these people would not feel they were recruited agents, since the CIA had come in at the request of the leader, giving the relationship a feeling of "official" sanctions, others helped unwittingly." NSA-CIA joint groups worked in more than a third of U.S embassies, combining the technical capabilities of the NSA and the human skills of the CIA in what was called special collection sites. If the U.S embassy was placed at a proper location extremely important intelligence was produced. These embassies would employ electronic eavesdropping that was almost unimaginable. "Phone lines and rooms could be tapped or bugged without physical intrusion or connection. Room conversations could sometimes be picked up from windows by electronically measuring the vibrations of the window glass with a small invisible beam. Sent from a transmitter hundreds of feet from the window, the beam glanced off the window at an acute angle and was received and amplified at a receiving site several hundred feet away. In the late 1970's, the U.S intelligence agencies had discovered that a standard microphone from a "hung-up" telephone in its cradle transmitted small impulses through the telephone wires that could be isolated and converted to sound. With access to the telephone lines and highly sophisticated equipment, the microphone in the telephone in every room or office became a potential room bug."(p.314). Now with many countries communications are going through satellites, and with the U.S installing phone and communication systems to "friendly" countries whose information is of interest to the U.S intelligence community, the U.S is having more information than what it knows what to do with it. These technological breakthroughs and innovations can only be admired for the skills and the ingenuity of those who invented it. Such techniques of intelligence we discussed so far are what one would expect from an intelligence agency to provide.

The real issue that characterized the cold war, however, was something different. It is covert actions that were initiated undemocratically behind closed doors, and such actions combined converted the intelligence community into a "Secret Government." Worst yet these activities dominated the cold war era, and it was done outside the original charter of the CIA.

CIA in reality performed three major functions: foreign intelligence gathering, evaluating and communicating, counter-intelligence operations outside U.S territories; and covert political intervention including psychological warfare.

The congressional statute creating the CIA only stipulated the intelligence and counterintelligence operations, and the covert and political intervention in other countries was not in that statute. Therefore, it was an assumption, and not a constitutional power from congress, that covert wars were a cold war necessity and this was a "very free interpretation" to the statute! CIA is organized around four main divisions: 1) Intelligence, (2) Plans, (3) Science and Technology, and (4) Administration.

The Intelligence division is up of made mostly of research analysts and is responsible for the final product. Science and Technology oversees scientific and technological research within the agency to give it technical advantage over its adversaries, but also keeps watch of technical innovations of other foreign intelligence communities. The Administration looks after recruitment and

training and other auxiliary and support administration functions. The one division that gave CIA its fame is the Plans Division better known as the "Dirty Tricks Department" This is the division that performed most of the covert actions which was not in the CIA original charter. Paramilitary missions, clandestine operations and assassination plots were carried out by this division. CIA dirty tricks department was more concerned with establishing deniability of its covert actions than its constitutionality or its ethics. It was literally following former president Hoover's secret report to the White House in which he advised that for capitalism to survive "accepted norms of human conduct do not apply" -- and certainly they did not in much of what the Plans division executed.

One of the better documentaries on this subject is Bill Moyers' *The Secret Government ... The Constitution In Crisis* aired November 4 1987. The transcript was published by Journal Graphics Inc. "The secret government," Moyers said, "is an interlocking network of official functionaries, spies, mercenaries, ex-generals, profiteers and superpatriots, who for a variety of motives operate outside the legitimate institutions of government. Presidents have turned to them when they can't win the support of the congress or the people, creating that unsupervised power so feared by the framers of our constitution ... During the Bolshevik revolution in Russia, Lenin created something called the Cheka, a secret organization run by eight lieutenants reporting directly to him, and filled with zealots who sabotaged and terrorized opponents. They make up their own rules, they chose their own missions, and they judged their own operations. You say it cannot happen here? Well before deciding, let's look at the history of our secret government," Bill Moyers added, "All this -- the contempt for congress, the defiance of law, the huge mark-ups and profits, the secret bank accounts, the shady characters, the shakedown of foreign governments, the complicity in death and destruction - they did all this in the dark, because it would never stand the light of day."

Fighting for the preservation of freedom and democracy was the alleged goal for establishing the National Security Systems. Yet the first memorandum of the national security council, memorandum NSC-1 of 1948 discussed the various options the United States should do if the communists won the election of 1948. One option was armed intervention through military aid to underground operators.

The first major covert operation carried by the CIA was in 1953 to overthrow the government of Iran, that was headed by prime minister Mohammed Mossadegh who was the target of this covert operation. He was a very popular prime minister and got to his position through a legitimate parliamentary process. The Dulles Brothers, Allen and John Foster decided to overthrow Mosaddegh; Allen being the CIA director and his brother John Foster, the secretary of state. After approval from Eisenhower, they staged the covert operation to remove Mosaddegh and re-instate the Shah who fled the country earlier and was then in Rome. From a building basement in downtown Tehran, CIA agents managed their first big covert operation. The CIA bribed the police and soldiers and organized a mob that was paid in cash by the CIA. The Shah was back to Tehran. As a result, the all 100% British-owned Iranian oil company whose nationalization triggered the crisis in the first place, became about 50% American. The Shah allocated the role of the Gulf policeman bought with much of his oil revenue American arms; some \$18 billion dollars of it over the next twenty years. The CIA then created the SAVAK, the Shah's secret police that brutalized the country for the next 25 years. Former New York Times Kennett Love said, "Nearly anybody in Iran of any importance has had a brother, a mother or a sister or a son or a father tortured, jailed, deprived of property without due process. I mean, an absolutely buccaneering dictatorship in our name, that we supported. SAVAK was created by the CIA." Even though some thought the Iran CIA operation of 1953 was a success, others question the longer term results. Mr. Love believed that Khomeini was a direct consequence and so was the hostage crisis. Professor Firmage of the University of Utah believed, that the 1953 CIA Iran operation resulted in the creation of a nation with enormous hate to the U.S to the extent it is viewed as the devil.

Next was Guatemala. The real cause why the CIA decided that Guatemala President Jacob Arbenz must go was his land reform which included land belonging to the United Fruit Company. President Arbenz, who was democratically elected, admired American President Franklin Delano Roosevelt's New Deal. He wanted a New Deal for Guatemala on the same lines like Roosevelt's. He wanted to open the Guatemalan system to all political parties, among them was a very small communist party. No communists were in his administration. Also, he wanted land reform as 3% of the landlords held more than 70% of the land. Arbenz, nationalized land including United Fruits

Company land and also including his family land! He was branded as a communist by the Dulles Brothers and the friends of United Fruits Company in Washington, so the CIA decided that a president of a sovereign country had simply to go. Col. Philip Roettinger(ret.), U.S Marines, was recruited from the Marines to join the CIA. Roettinger said, "It was explained to me that it was very important for the security of the United States, that we were going to prevent a Soviet beach-head in this hemisphere -- which we have heard about very recently, of course -- and that the Guatemala government was communist and we had to do something about it. Well of course there was no - no even a hint of communism in his government. He had no communists in his cabinet; he did permit the existence of a very small communist party. This was sudden death for him, I mean, there was no chance of him winning the fight, because of the fact that he had done this to the United Fruit Company." The CIA launched some mercenaries against Guatemala from Honduras, but could not get the job done. So CIA bombed the capital of Guatemala, using CIA planes and pilots. President Arbenz fled and was replaced by an American puppet, an army colonel: Carlos Castillo Armas who restored the land to United Fruit Company and restored Guatemala to be what Washington wanted it to be: a banana republic. All was done to preserve "the free and democratic" institutions against the undemocratic communist threat! Military dictators ruled Guatemala the next 30 years. Arms were provided to these dictators, and Guatemalans were tortured if they aired opposing political views. Suspected insurgents "were shot, stabbed, buried alive, or strangled" as Moyers commented. The succession of military dictatorships that followed CIA Guatemalan operation named "Operation Success" caused over 100,000 deaths of innocent Guatemalans.

In Indonesia, President Sukarno announced in 1957 that a "guided democracy" which stems from the culture of Indonesia is more suited for the country than Western liberal democracy that took its origins from a different culture. The procedure of reaching a consensus at the village was one of prolonged deliberations. Such consensus-making process should be enlarged to be embodied on a national level. He proposed a national party system made up of four parties. He also proposed a national council representing political parties, workers, peasants, intelligensia, national entrepreneurs, religious organizations, armed forces, women organizations, etc. Sukarno also became convinced to return to the 1945 revolutionary constitution - a presidential type constitution. Operating within the framework of guided democracy Sukarno prevented the Army to prohibit communist meetings and suppress communist newspapers. He also was leader of positive neutrality in league with Nasser of Egypt and Nehru of India. The United States secret government did not like positive neutrality, Nasser, Nehru or Sukarno, specially because he stopped the communist party supression by the Army. A CIA-inspired army-led coup was staged under the leadership of General Suharto, that was followed by slaughter of alleged communists across Java and in Bali. According to some estimates about 1,000,000 people were slaughtered in the process. The lowest estimate puts the figure at 500,000 people. General Suharto became the president of Indonesia for over thirty years!

On April 17,1961 a long prepared-for invasion of Cuba was started as Cuban exiles, trained by the CIA landed at the Bay of Pigs from which their adventure took its name. They sailed from a CIA base in Guatemala and were promised air support. Kennedy cancelled the air support as the invaders were surrendering to the Castro forces. Within the CIA, the "executive action" department had the responsibilities to discredit people, get rid of them and that included assassination "There were at least eight documented attempts to kill Castro. He says there were two dozens. And there was even one effort to put LSD in his cigars. To help us get rid of the Cuban leader, our secret government turned to the Mafia, as we once made use of the Nazis. The gangsters included the Las Vegas Mafioso John Roselli; the don of Chicago, San Giancana, and the boss of Tampa, Santo Trafficante."

American involvement in Vietnam started in 1954 when the Vietnamese won their independence from France. The domino effect theory of Eisenhower was if Ho Chi Minh communist forces took all Vietnam, all the countries of Southeast Asia will fall like a domino. Therefore, a puppet regime was installed in Saigon under Ngo Din Diem. Commandos trained by the CIA started to sabotage transport systems and contaminate oil supplies of North Vietnam. Kennedy sent the Green Berets to Vietnam and took position that Vietnam was the litmus test for American resolve to counter and contain international communism. By the time Kennedy was assassinated there were 15000 Americans in Vietnam operating as "advisors".

Just like the United States needed a "Pearl Harbor" to get into the WW2 it needed a Gulf of Tonkin incident to get from congress a Gulf of Tonkin Resolution which was used as a "blank check"

to massively increase the American forces in Vietnam. The action of the Gulf of Tonkin was not unprovoked. The American destroyer was in a battle zone where South Vietnamese were carrying out secret raids against the North. Even the American destroyer had been warned of the possibility of an attack before an attack occurred.

More troops were sent to Vietnam and more Americans and Vietnamese were killed. More than 2.5 million Americans fought in Vietnam at one time or another during the Vietnam war. Fifty-eight thousand Americans died in Vietnam, in a war that was never declared by Congress, even though the American constitution clearly stated "congress shall have the power to declare war." It was started by the secret government and was run by it. Here is how Ralph McGhee described his feelings about his mission in Vietnam with the CIA where he helped set up South Vietnam's secret police: "My efforts had resulted in the deaths of many people, and I just -- for me it was a period when I guess I was ... I consider myself insane. I just couldn't reconcile what I had been and what I was at the time becoming. And it was so painful for me, it's just hard for me to express it, because I became completely antisocial, I couldn't deal with anybody. I just was dealing mentally, it was an internal battle. Every night I would lay on my bed and think, well, this can't be true, why are we doing it, why don't we stop, why don't ... why can't we accept? And it was a battle all night long, all day long, every minute of the day I fought this turmoil that I could see no other exit from. And finally when I got over that ... I wanted to jump off the agency's hotel, the Duke Hotel out there, and kill myself, and hang a banner, 'F\_\_ the CIA' or 'The CIA lies' or something like that, just to try to bring home, have my death serve some purpose, to make the American people realize the truth, they were being lied to."

The power to declare war by the Congress was captured by "clicks" and unelected "groups" in the administration. Kissinger "secretly" decided to expand the Vietnam war to neighboring countries, and deliberately misled his own national security staff, many of them resigned afterwards. He deliberately misled even the Secretaries of Defense and State about expanding the war. Laos and Cambodia were both victims of such decisions.

A CNN investigation charged the United States for using chemical weapons (nerve gas) in 1970 against American soldiers in Laos who defected to Laos (*Time*, June 15, 1995, p. 37). This is the same charge the United States used against Iraq in the United Nations that nerve gas was used by the Iraqi Government against Kurdish rebels and defectors. This accusation was aired at News Stand of CNN. At a later date, CNN and Time apologized and said that although gas was used, no evidence can be provided to ascertain that it was nerve gas not tear gas. Also, the pentagon challenged eye-witnesses and participants who claimed the mission was to kill American deserters and that if any were killed it was a by product of the mission not its aim. In short, one can also assume that "deniability" was perfected to the extent only circumstantial evidence was presented.

When some of Kissinger's own staff resigned in protest against his decision of expanding the war in Cambodia, many of those people found their phones bugged to ensure that in no way will they inform the American people about such decisions. Morton Halperin was among those critical of Kissinger's policies in Vietnam and Cambodia. After he resigned in protest he discovered that his phone was bugged for twenty-one months. Halperin explained that getting used to breaking the law in foreign countries will make breaking the law a second nature, thus laws are broken even at home, as a general feeling of contempt for the law becomes a culture. Why would the executive branch and the secret government will have to revert to lies? Because, a growing gap exists between "the perceptions inside the executive branch about what the threats are to our national security, and the beliefs in the congress and the public about the threats to national security. And that leads to secrecy; that is what drives the policy underground ... precisely because they cannot get their way in public debate, they are driven to seek to circumvent the democratic process." The paradox here is: the rhetoric of the cold war was that the "free world" was fighting for freedom and democracy, but actually the secret government was assaulting both not only in foreign land but within its own national borders.

Ferdinand Marcos was assisted to power in the Philippines in 1972. On the other hand Chile's President Salvador Allende who was a democratically-elected president was overthrown and assassinated in 1976 by a military coup engineered and financed by the CIA. The CIA was at both sides of the Lebanese civil war of the 1970's which dragged through the 1980's. A sectarian religious balance between Moslems and Christians was a result of the western mandatory powers of border

demarcation of Greater Syria, that used to make the present-day countries of Syria, Lebanon, Israel, Palestine and Jordan. This balance seemed as if it can be operated by a remote push-button: harmony among the sects sometimes, and strife at other times. The sect leaders were described as feudal lords with Pierre Cardin clothing. When the Palestinians of the north part of Palestine had to leave the war scene of the 1947 war, some went to Lebanon. After 1970 the presence of armed Palestinians was sharply increased and as most of them were Moslems, the Christian Phalangists thought the Palestinians had altered the sectarian balance. Bashir Gemayyel headed the Phalangist party militia. Hasan Salameh, headed the Palestinian intelligence in Beirut and was a confidant of the PLO chairman. It had been now claimed that both were CIA agents. Gemayyel was recruited by the CIA in Washington at the start of the 1970's where he was working for a law firm. He later became a shared CIA - Mossad asset. Hasan Salameh, who married a Lebanese Christian x-miss Lebanon while conducting Jihad from Lebanon, was recruited by Robert C. Ames. Ames was killed in the American Embassy explosion in Beirut in April 1983. Salameh was also killed by a car explosion, and Bashir Gemayyel was killed in his headquarters by an explosion. Both Gemayyel and Salameh, some concluded, assumed that co-operating with CIA was a service to their cause. CIA, it was claimed provided the national security advisor of Bashir Gemayyel, Wadi Haddad. Haddad was working at the World Bank in Washington when he was nominated for the job, and he was nick-named there as the "American".

President Gamal Abdul Nasser who led Egypt's revolution was undoubtedly to many, including the opinion of this writer, a well motivated, charismatic leader who, at 32 years of age, and limited knowledge and experience, believed that he may further Egypt's national interest by forging co-operation with Washington. He assumed the USA to be a non-imperial power, and was interested in getting its assistance to drive the British soldiers from Egypt. It is now known that the U.S knew of the Egyptian revolution before it occurred and assumed that it will be a beneficial force in the U.S fight against communism. Miles Copeland, in his book "Game of Nations" claimed that CIA chief operative Kim Roosevelt, who managed the coup of Iran against Mossadegh, had his office at the early days of the Egyptian revolution next to Nasser's office. Nasser's journalist friend and confidant Mohammad Hassanien Heykal is said to have had a liaison role. Nobody, even Nasser's worst adversaries ever claimed that Nasser was a CIA agent nor his friend Heykel. To the contrary, as Nasser acquired more experience, and was specifically requested to participate in Western military alliances, he opposed U.S policies. It is widely believed in the Arab world that Nasser, after he matured politically, was brought down indirectly by the 1967 six-day war through an alliance between Israel and the U.S intelligence community. The presence of U.S spy-ship Liberty within the battle scene, and several actions that occurred in harmony within Egypt and the other warring parties at the start of the war and its duration points out that intelligence first and Israeli Air force second were the primary elements in determining the outcome of the six-day war.

Within the culture of the secret government and its ethics, Watergate was nothing special except that Nixon was caught, and he should have done what he advised future presidents: "just destroy the tapes." On all likelihood, another Watergate would have been waiting for Reagan in the contra affair. In the Reagan, years over fifty covert operations were approved.

What happened in Nicaragua was still fresh to recent memory. Likewise for Grenada. Likewise for Panama, except Panama might be a milestone, that really marked the beginning of the new world order. On December 20, 1989, the United States, overtly this time, and without being armed with UN resolutions, unilaterally invaded a foreign sovereign country and arrested that country's leader and brought him to a U.S penitentiary in South Miami, Florida. Manuel Noriega was given prisoner no. 41586. Law-abiding U.S government was paying him 50 dollars per month according to "Geneve Agreement". His "real" crime is not yet known although some 12 charges were filed against him, none of them containing the real cause. But, it must be something bigger than drugs trafficking, as he did so when he was working for the CIA, and the drugs money used to go to the contras. Noriega's attorney claimed that his client worked for the CIA for over 20 years, that he received more than \$320,000 from CIA in 1976 alone !

At the start of the decade of the 1990's, in which the USSR was formally pronounced dead, the gulf war was started. It will be discussed in another chapter, but it is interesting to note that 500,000 troops were sent to a war zone without a war declaration, and that all the main players "happened" to be graduates of the national security establishment:

- President Bush : former Director of CIA
- Collin Powell : former National Security Advisor
- Dick Cheney : former CIA executive
- Brent Scowcroft : National Security Advisor who came from "Kissinger Associates"

The intelligence community's main function after the collapse of the Soviet Union is to assist as and how needed to spread the gospel of globalization and furthering the interests of the United States and the owners of the global infofinancial power structure.

Members of the intelligence community keep getting in and out of government to implement efficiently and discreetly, the agendas prepared for them by the global infofinancialists who own the power structure of money, media and marketing.

"This is the kind of Gestapo tactic which they had in Germany and Russia. But the FBI has built itself -- partly with my help -- to an impregnable position where it can do

no wrong. Apparently, civil liberties and the sanctity of a man's home or office mean nothing."

Columnist Drew Pearson

"I do not wonder that we are beginning to get an extremely jittery population .... This type of investigation (by the FBI) seems to me to smack too much of the Gestapo methods."

Eleanor Roosevelt (wife of President F. D. Roosevelt)

"Intelligent gangsters from Al Capone to Moe Dalitz and Meyer Lansky have always been fierce, voluble defenders of the capitalist faith, and to that extent they were and are J. Edgar Hoover's ideological kinsmen."

Albert Fried, historian

## *Chapter 8* **THE NATIONAL SECURITY STATE PART II** **Hoover's FBI Running A Democracy**

The country of USTAN won its independence only recently after the break-up of the Soviet Union. The same apparatus that was keeping the country for the Soviets since 1917 remained in power under different job titles but their job descriptions remained unchanged. The president of the new country was meeting with his minister of justice and other advisors on the problems they are all encountering with their chief of the Internal Security Bureau (ISB). The president of the country of USTAN is afraid of the ISB chief and so were all the other attendants of the meeting. None of them made a secret of it, not even the president of the country. The following were from recordings of that meeting at the office of the president:

USTAN president, "For a lot of reasons he ought to resign ...He should get the hell out of there... Now it may be, which I kind of doubt... maybe, I could just call him and talk him into resigning... there are some problems... if he does go he's got to go of his own volition... that's why we're in a hell of a problem... I think he'll stay until he's a hundred years old."

Justice Minister: "He'll stay until he's buried there. Immortality....."

USTAN president: "I think we've got to avoid the situation where he can leave with a blast.... we may have on our hands here a man who will pull down the temple with him, including me... It's going to be a problem..."

Their assessment to the situation proved correct as the ISB chief stayed at his job until he died. When the president heard the news all he would say was "Jesus Christ! That old cock sucker!"

That real life situation did not occur in USASTAN as no such country exists. It actually occurred in the United States of America. The president was Richard M. Nixon; the minister of justice was Attorney General John Mitchil, and the ISB chief was FBI chief J. Edgar Hoover. The meeting place was the White House, Washington D.C. The meeting details were transcribed from the recordings at Richard M. Nixon office. And it was quoted at a well-researched book on Hoover "The Secret Life of J. Edgar Hoover". Hoover presided over one of the National Security Establishment Organizations for about 50 years, a quarter of the total life of the American Republic. Some may have imagined foreign country leaders being afraid from the U.S National Security Establishment... but having not only Nixon but so many other presidents and high officials and elected legislators literally afraid of the national security organization that was supposed to look after internal security not to scare presidents was not imagined.

"Justice was only incidental to law and order" said Hoover, and he alone decided what was law and what was order. Many times he did so without having to bother to enact the laws he wanted, but always he was capable of getting the laws when he needed them.

And if one of the FBI tasks was to fight crime, J. Edgar Hoover did not recognize the existence of the biggest one of them all: organized crime. Maybe because it is difficult to make a distinction between organized crime businesses and any other big business. In the capitalistic order ethics, anything goes as long as you are willing to pay the price. Even jail has a price; or money contributions to buy influence. If organized crime kills a few people who may stand in their way, many of whom come from within their organizations, other businesses can kill innocent people: the tobacco industry was targeting youngsters to smoke even after it was reasonably proven in the middle sixties that cigarettes are addictive and lethal and cause cancer. Some 400,000 Americans got killed annually by a legitimate tobacco business. So, what is the big deal, probably thought J. Edgar Hoover! He knew that presidents got elected after they solicited the help of the Mafia, that the CIA established a close relationship with them to assassinate foreign leaders. If the Mafia traffics and/or sells drugs, but so did Noriego who sold drugs for the CIA while working for it. Even drug money went to finance counter revolutions: the contra. As historian Albert Fried said, after all intelligent gangsters are devout capitalists. The national security system was created to preserve the capitalist order, and the Mafia is at the center of that order. J. Edgar Hoover did not want to waste time practicing hypocrisy. At least on that issue he thought he better call things for what they are; he saw no organized crime in the country, he saw big business.

He knew that big business of today, at least some of it, was Mafia business yesterday. It is not only legitimate business but its owners are highly respected members of society today. He probably thought that big business becomes organized crime once it is caught. It is big business as long as it is not caught. He did not want to bother with details. So to him mafia was big business only. And that's fair enough within the ethics of capitalism in which: "There is nothing that one ought not to do!" To prove the point there was no organized crime in Russia during the USSR era. No sooner than the country turned capitalist, Mafia became all over the place.

Even in government, one did not know where one ends and the other starts. A Darwinian approach to the evolution of capitalism now theorizes that after Mafia capitalism as in Russia, robber baron capitalism will come next. Rockefeller ...and Vanderbilts, to mention some, were called robber baron capitalists in the late 19th century. It was followed by packaged capitalism. It is the same old capitalism except it acquired experience in giving a face lift and some make-up to the very same things: only new images are created - but the substance remains the same. The image makers became an important part of the culture and they create perceptions but they do not change facts. Therefore Mafia capitalism is crude capitalism that if properly packaged will become the capitalism America now is trying to sell to the world.

Let us take the Kennedys as they represent one of the well-packaged images created by the image makers. Mafia boss Frank Costello made no secret that Joseph Kennedy made his fortune as a result of an alliance with organized crime during the bootlegging period. President Roosevelt did not think much of Joe Kennedy. He described Joe Kennedy as "thief, one of the most evil, disgusting men I have ever known" yet, this evil disgusting thief as described by president Roosevelt was appointed to one of the most crucial posts of the time -- as an Ambassador to the United Kingdom at the most

critical times during the second world war. One wonders why would a president exercise such duplicity and what are the forces that made him to exercise this duplicity! Truman thought of Joe Kennedy as a big crook. Eisenhower, having the benefit of the opinion of his predecessors, nevertheless, appointed Joe Kennedy as a member of one of the establishment's most powerful institutions. He appointed Joe Kennedy as a member of the Board on Foreign Intelligence.

The relationship between Mafia and the Kennedys - father and sons - never stopped. Joseph's personal and business ties to the mob remained strong with Johnny Roselli and he met with many organized crime bosses in New York during the presidential campaign of his son John. John Kennedy himself met Mafia boss Joe Bonanno and smiling Gus Battaglia. Earlier he even met Meyer Lansky. He met Giancana at least twice asking for his help in his nomination for president.....

It was not Richard M. Nixon alone who feared Hoover. Most presidents of Hoover's time did. Nixon, after he graduated from college applied for work with the FBI but was rejected, so he had a file with the FBI ever since. Maybe his early acquaintance with the FBI and "understanding" helped Nixon with his political career; first in joining Hoover and McCarthy in McCarthyism and then his promotion to the national political scene. Nixon realized that Hoover knew so much about him that every time he called Hoover to the White House to ask him for his resignation, he couldn't.

William Donovan who helped create the CIA and who headed its predecessor, the Office of Strategic Services (OSS) said that "There is only one man in political life that (F.D. Roosevelt) FDR feared. He admitted that man was Hoover" Not only did Hoover know about F.D. Roosevelt own extra-marital life, he bugged that of Roosevelt's wife. He bugged her hotel rooms 330 and 332 at the Urbana-Lincoln Hotel and he sent the recordings to President Roosevelt, which was allegedly a love affair she had with a young friend who was serving with the military in a nearby base. He was immediately transferred to a combat zone during WW2. John Kennedy was no exception. He called Hoover to the White House on March 22 1962 for a meeting that lasted 4 hours in which Kennedy was expected to ask his internal security chief to resign. Of course Hoover didn't resign and probably Kennedy didn't ask him to. Hoover may have reminded him of some of his past and present excesses. Not only Hoover knew about John Kennedy's excesses and love affairs from as far as WW2 with Inga Arvad, who came under FBI surveillance, or his most recent affairs with movie stars like Angie Dixon and Marilyn Monroe; he knew that the president of the United States was sleeping in the White House proper with Judith Campell, the lover of Mafia Boss Giancana, who also acted as a go-between for the Mafia boss and the president! On about 20 occasions she carried sealed envelopes from the president to Giancana. He even knew that with presidential approval a CIA - Mafia alliance existed to kill the president of Cuba, Fidel Castro. He knew that Kennedy won his small margin in election by using the assistance of prostitutes and the Mafia.

If capitalism has no ethics, Mafia does. It has its own codes of honor as well. For instance, when the Kennedy's asked for the help of Mafia boss Carlos Marcello to win Louisiana, they were honest to tell them they were already booked by Johnson! It appears that it is standard politics to win big business to the side of presidential candidates, and Mafia is big business. It is now stated by many that the Chicago elections were forged by the Mafia in favor of Kennedy.

Hoover got very well with Eisenhower. Nevertheless he investigated rumors involving Eisenhower and his mistress Kay Summersby. Bugging presidents' girl friends or lovers outside the White House was systematic. But Kennedy's secretary said that Kennedy believed that Hoover had the White House phones bugged!

Even though Lyndon Johnson used to refer to Hoover in private "that queer bastard" they got along fine together. Johnson, the politician, practiced very well: if you cannot beat them, join them. He realized the value of having Hoover as a friend, and he also realized the dangers of having him as an enemy. Johnson to start with knew that Hoover knew about Johnson's 1948 election to the senate which was won by a margin of only 87 votes over his competitor. Hoover knew that election was a result of ballot rigging. Johnson was backed by two of Hoover's friends from Texas: Clint Murchison and Sid Richardson. They wanted Johnson to be their man in Washington. When FBI agents had to investigate the vote fraud allegations, Hoover saw to it that it led to no where. Hoover was a frequent visitor to the two Texans' ranches. Hoover also knew about Johnson's womanizing. One such affair was with Madeleine Brown with whom an extramarital relationship was alleged to last for 20 years. Many claimed that her son Stephen, who is a Johnson look-alike is really Johnson's son. Hoover knew also that Johnson was once arrested by the New York police on a raid at a homosexual bar in New

York city. Hoover knew about Johnson's corrupt business dealings. For all these reasons Hoover and Johnson got along fine, whether during the time Johnson was a senate majority leader or President of the United States.

If presidents go to organized crime for help and if the CIA finds co-operating with organized crime a matter - of - factly affair, so why not Hoover. Certainly, capitalism's ethics is not against it. As if the above is not enough justification, it is now revealed that the master "blackmailer was blackmailed himself". Mafia sources indicated that through their knowledge of Hoover's "own excesses" and private homosexual life they had him under control!

It may be interesting to point out at this time that:

- Presidents can be overshadowed by their national security establishment.
- That a government - big business - Mafia understanding did exist.
- That many candidates for presidents of the 20th century not only knew about Mafia, but solicited their help to get to their jobs.
- That in the capitalist order, Mafia is a patriotic organization whose services is also sought by the national security establishment.
- That the National Security Establishment did not fear presidents. It was the other way.
- Through image making and the media people were sold perceptions about their leaders, not the real leaders themselves.

To illustrate the alliance between government and big business, and to illustrate that the American system considered organized crime just another business, the case of Lewis Solon Rosenstiel can serve as a good example. The packaged image of Rosenstiel was that of a big and successful businessman. He was even perceived as a philanthropist. He gave \$100 million to worthy causes such as universities and hospitals. His company Schenley became a great distiller making about \$50 millions annually. The New York Legislative committee disclosed that his fortune, just like that of Joe Kennedy, was made mostly during the prohibition in alliance with the Mafia. His wife later on disclosed also that Mafia gangster Mayer Lansky used to refer to him as "supreme commander". Rosenstiel Parties included famous government officials, judges and well-known Mafia bosses, and they all used to socialize and intermingle together quite well. Governor Dewey was his lawyer, and J. Edgar Hoover was his friend. He even donated a million dollars to the J. Edgar Hoover foundation established to protect "the heritage and freedom of the United States of America"; a heritage that made passing a bill by congress like the Forant Bill possible.

Schenley liquor faced serious problems because of a new tax that will impose 10.5\$/gallon on liquor at a time Schenley's inventory was extremely high due to market miscalculations. The only way to divert a sure financial disaster was to stop the new tax through congress. So J. Edgar Hoover, in a visit to Rosenstiel's town house on East Eightieth St discussed the issue. According to Rosenstiel wife, in a sworn testimony, the visit took place in the fall of 1957. Hoover and Rosenstiel discussed Lou Nichol's, who was Hoover's influence man for congress and a confidant and assistant for 23 years. After that meeting Lou Nichols left the FBI and worked for Rosenstiel to lobby the congress to change that tax law. Nichols, knew the ins and outs of congressmen and how to get them to change the law. Nichols succeeded to get the Forant Bill passed by congress which exempted stored whiskey in liquor companies from the 10.5\$/gallon tax for another 12 years. This saved Rosenstiel about \$50 million in taxes, and Rosenstiel company stock shot up \$33 million in one day. According to Mrs. Rosenstiel, her husband's private plane was shuttling with cash between New York and Washington. Payments to pass the Bill were directed by Lou Nichols. She said that senate majority leader then, president Johnson later, received half a million dollars. She witnessed large amount of cash payment also to the chairman of the House Judiciary Committee Emanuel Celler. As a result and to quote Mafia Boss Paul Castellano, the law "changed its mind".

When mafia boss Paul Castellano was arrested by the FBI (after Hoover's death of course) he reflected and gave his view about U.S law and government ethics: "If I was the government I'll put my ass in jail for a thousand years" he said "but not because I am wrong. You see, that's the part I object to-this idea the law is right and that's the end of the story. Come on, we are not children here. The law is (how should I put it?) a convenience, or a convenience for some people, and an inconvenience for other people..... Besides, the law can always change its mind" (*Boss Of Bosses*,p. 326). It seems obvious that the thousands of lawyer lobbyists of Washington, and the millions of dollars in political contributions [and some cash as in the case of Rosenstiel] are there at the country's capital to

let the law change its mind so it becomes a convenience to some people, and inconvenience to other people. When FBI agent Andy Kurin was discussing with Castellano's Consigliere about payments he was receiving without showing to work for it, he was fed up with the system's hypocrisy. He told the FBI agent: "...if this is a crime, Andy, you better build a lot more jails, cause you're gonna have to lock up half the fucking country. Start with the little WASP faggots with their trust funds. Then get the stock brokers, and after that if you've still got room in the fucking penitentiary then come and hassle a little pissant like me with his four-fifty a week."

"But Joe," said Andy Kurin "You're talking pay scales. I am talking criminal conspiracy." "Conspiracy" hissed the white-haired mafioso "conspiracy. That's the magic word with you guys.... But lemme ask you something - what isn't a conspiracy?....politics? cut me a break! Wall Street? We both know that's a license to steal. No, Andy, its all conspiracies, and the only difference is that some conspiracies you bust, and some you don't." (*Boss Of Bosses*, pp. 191,192)

The National Security Establishment and the American government always claimed that their actions are motivated by virtuous causes ... All actions are always made to promote freedom, democracy and justice. One may have thought that excesses of the national security state was mostly against foreign countries and nationals. But then, it became obvious that such excess became a culture of the establishment that made little difference whether the opponents are American or foreign nationals. Excesses were against opponents -- period.

At the start of the national security act of 1947, a coordinated campaign was staged by the extreme right that many thought moderation itself was on the attack. This peaked with McCarthyism and his unfounded sensational allegations about "reds" all over the government departments. As William Sullivan admitted later on, the FBI orchestrated the political terror of McCarthyism with information fed by the FBI, while publicly denying any connection. The investigations would not have been possible without FBI help. McCarthy's first chief investigator Donald Surine worked for the FBI. At a time when the FBI admitted that most of the communist party members were paid FBI agents and informers, without whom may be there was no communist party, the FBI fuelled the "red-scare" campaign of Mc Carthy. Hoover recommended to Mc Carthy one of his proteges, Roy Cohn, for appointment as chief council to the senate subcommittee on investigation chaired by Mc Carthy. Roy Cohn brought to the same subcommittee as unpaid "chief consultant" his lover homosexual friend David Schine. Schine's father, Myer, admitted his connection to the Mafia with which he had arrangements for his hotel's gambling operations. Starting from 1950, McCarthyism became a dictionary word for political blackmail and terror. And blackmail was used based on actual fabricated evidence or allegation, against ordinary and prominent citizens. And the story of Cornelius Gallagher may prove the point.

Cornelius Gallagher became a prominent congressman, who was also friendly to the Kennedys. Hoover had no love lost to the Kennedys. His investigation of the invasion of privacy led to the formation of a subcommittee on privacy. In order to publicly embarrass the Kennedys who authorized wire taps and bugs, Hoover, through Roy Kohn, asked Gallagher to investigate illegal FBI and IRS surveillance. As Gallagher was reluctant after several attempts, Roy Cohn responded with threats that those who are not friends of Hoover will become his enemies, and told Gallagher that he will be sorry. Things that followed really made Gallagher sorry. Gallagher phone was bugged by the FBI and his house was raided on Easter 1967. Local police told him it was an FBI job. Then came an article in LIFE that claimed Cornelius E. Gallagher was having regular get-togethers with mafioso "Bayonne Joe" Zicarelli and that Gallagher gave the mafiosi active assistance. Gallagher admitted he had two "innocent" meetings with Zicarelli being a "prominent businessman" in his home town, no more and no less. Then Roy Cohn called Gallagher attorney Weisman to his office and asked him to listen to a phone conversation Kohn will have with Cartha De Loach of the FBI. De Loach said that the FBI had unquestionable evidence that O'Brian, the missing New Jersey gambler, died of a heart attack while in bed with Gallagher's wife and that O'Brian's body was removed by a gangster named Kayo from the Zicarelli Mafia family. De Loach said that the story will be coming within a week in LIFE and suggested that Gallagher better resign from congress. The story did come on LIFE's issue of August 8,1968. The story did not succeed to damage Gallagher politically as he was re-elected that same year. In 1986, as Roy Cohn was dying of AIDS, he signed a formal letter stating that the O'Brian story dying in Gallagher's wife arms was made up by the FBI. Also, the House Ethics Committee investigated earlier Gallagher's alleged connections with organized crime and concluded none existed.

At a later date, however, the IRS investigated the congressman in 1972 on tax evasion and he went to jail for 17 months. While in prison, his seat was eliminated all together by redrawing of constituency boundaries. The law again "changed its mind." Quoting Mafia boss Paul Castellano again " ... you see that's the part I object to -- this idea the law is right and that's the end of the story. Come on. We are not children here. The law is -- how should I put it? A convenience, or a convenience for some people, and an inconvenience for other people. Besides the law can always change its mind." And again we quote Joe Gallo's "what isn't a conspiracy? ... politics? Cut me a break; Wall Street? We both know that's a license to steal."

Yes, the law is a convenience to some people: the 1 percent class (OPC) who hold about half of the total country's wealth, and an inconvenience to other people: the 80% of the population that only hold less than 8% of the country's wealth.

ROCK AND STITCH \*

By: Don Van Etten

*Van Etten & this book's author met accidentally on a flight to Istanbul on 6 Jan 1992. The author suggested that the United States had all the resources to know about the invasion to Kuwait before it occurred and not after, and it deliberately misled all concerned to precipitate the conflict.*

*Don Van Etten said that is quite possible, and he investigated how the U.S precipitated the "Pearl Harbor" attack to make its entry to WW2 possible.*

"Let he who has not sinned cast the first stone."

John 8:7

"A stitch in time saves nine."

\* By permission from the author: Don Van Etten.

## *Chapter 9* **PEARL HARBOR: THE OTHER SIDE OF THE STORY**

"We were sitting Ducks" was how one Pearl Harbor survivor described the general feeling aboard the ships tied up next to Ford Island in December 1941. They were. The "ducks" were not allowed to find shelter on the West Coast nor to hide in the wide ocean. They were kept in Pearl Harbor where they lay a tempting target. They served that purpose and their country. The ships and men sacrificed at Pearl Harbor saved the world from AXIS domination. There has been no greater instance of a few serving in sacrifice for the survival of many.

It was only the facts that they did not know they were bait for a trap and did not volunteer for that doomed duty to save the society they served that have denied them their rightful honor. The military men in Hawaii were innocent of any crime of unpre-paredness because they were ignorant of all the circumstances preceding the attack. Franklin D. Roosevelt was not ignorant and therefore not innocent.

And yet President Roosevelt was not guilty of any crime. His "sin," the sacrifice of so many men ON PURPOSE, was, merely on a larger scale, what all of us at some time in our lives have done. He carried the burden of this monstrous decision for us. It was simply the lesser evil. His willingness to accept the necessary harm was based upon an inherently good motive which led to a conclusion inescapably correct.

Pearl Harbor was the "stitch in time that saved nine". Without this staggering stitch the cloth of free world society would not have survived the rip of AXIS power. Roosevelt's clear perception of the problem and his action to solve it saved, not without cost, millions of lives and a way of life.

Suggesting that President Roosevelt knew that Pearl Harbor was going to happen is not a new concept. Several authors have attacked Roosevelt for allowing this terrible event to take place. Most authors, certainly all common college text books, have accepted the concept that the Pearl Harbor attack was a total SURPRISE. Some authors and investigating committees criticized the lack of preparedness but stopped just short of indictment. The historical villains of Pearl Harbor were the commanders in Hawaii, Admiral Husband E. Kimmel and General Walter C. Short. They were as innocent as the men aboard the USS Arizona and also as much victims.

Franklin Delano Roosevelt not only knew that Pearl Harbor was imminent, he purposely precipitated the event. Without Roosevelt's Machiavellian maneuverings, the December 7, 1941 attack by Japan on Pearl Harbor would not have taken place.

Why would Roosevelt do that? Because he saw that larger picture apparently invisible to opponents of America's participation in World War II. He knew that unless the United States of America entered the war with the Allies as soon as possible, all would be lost. This is the major premise in the argument that Pearl Harbor was PLANNED. The information presented in this essay has not been newly discovered; in fact, the evidence is well known. Perhaps it is too obvious. The familiar quote, "None so blind that will not see", may explain America's myopic view of Pearl Harbor. A different perspective makes the conclusion hard to dismiss.

PREMISE ONE. The United States had to become a totally committed Allied belligerent or World War II would have been won by the AXIS powers.

The 1990 reunification of Germany, Japan's economic world dominance, the collapse of Soviet Russia and the decline of American power adds poetic irony to this premise.

1941 found Adolph Hitler's domination of Europe almost complete. Only his failure to take Moscow and Leningrad and the German inability to execute Operation Sea Lion-- the invasion of England-- dulled the gloss of German glory. Many anticipated the inevitable destruction of Communist power in Russia despite American lend-lease support.

Japan's control of Manchurian resources and the huge chunks of China conquered by Japanese soldiers combined with South East Asian expansion and subsequent access to Dutch East Indian Oil make the imperial Asian position in 1941 paramount.

Only a valiant people and the English Channel had saved England. Russia's vastness only apparently delayed the eventual German conquest. Without American military involvement, the war would have been over in 1942. An AXIS heartland would have ruled the world isolated from markets and resources and the Americans could not have survived or remained free, even without the German V-2 rockets and the inevitable atomic bomb being used.

George Gallup told this author on June 4, 1980 that his polls showed popular support for American entry into WWII. Popular support, however, was not enough. Political opposition to the war made even the draft and lend-lease difficult to pass through a reluctant Congress.

PREMISE TWO. Political opposition to America's entry into WWII could have only been overcome by an unprovoked vicious and violent attack on the United States.

During the presidential campaign of 1940, on October 30 Franklin Roosevelt said, "Our boys are not going to be sent into any foreign wars. Of course we'll fight if we're attacked. If someone attacks us then it isn't a foreign war, is it?"

Opposition to the German's participation in the war was shown in the famous Nye Senate Committee investigation of WWI profit making. Charles Lindbergh articulated the anti-war position of the American First Organization. Congressional opposition made passage of lend-lease and the Selective Service Acts difficult.

Only an unprovoked attack would give the Roosevelt administration the moral position -- self-defense -- that would silence critics and unify the country.

PREMISE THREE. Japan had to be the one to attack the United States.

Hitler refused to accept the American challenge in the Atlantic. Belligerent actions like: naval escorts for convoys to Iceland, military occupation of Iceland, armed merchant vessels and attacks on German submarines all failed to generate any national response from Germany. Because Germany would not declare war on the United States, Japan had to.

Roosevelt initiated economic sanctions against Japan as a first step. These were generally regarded as responses to Imperial Japan's military aggression in China, not as provocations. They were, however, provocations. Embargo of scrap iron, then oil and the freezing of Japanese Assets in the United States caused an immediate, obvious and logical response in Japan. They would have to get oil else where -- Dutch East Indies -- which would mean war.

The Japanese decision to aggressively enhance its six-month oil reserves would be implemented only after strong efforts to negotiate with the Americans failed. Japan's government could not know that President Roosevelt had no intention of letting the negotiations succeed.

Ambassador Admiral Kichisaburo Nomura was instructed on November 17, 1941, by Japan, to negotiate with Secretary of State Cordell Hull. His goal was to solve the problems between the two countries and to get America to resume oil shipments. Hull's ultimatum of November 26, 1941 seemed designed to give the Japanese no honorable, face-saving choice but aggression.

William Randolph Hearst wrote on December 3, 1941, "Japan is not threatening the United States. The United States is threatening Japan." He was right, but not to most Americans, then or now. The still common view has been that Nomura was a "smoke screen" behind which the Japanese prepared their attack on Pearl Harbor. The negotiations would, and did, give America a sense of security. Nomura and Japan were sincere. They wanted to solve the oil crisis problem without war. It was Roosevelt's need for war that made those negotiations a sham. America, not Japan, bargained in "Bad Faith". The result was what FDR wanted, the attack.

Henry L. Stimson, Secretary of War, wrote on November 25, 1941 "The question is how should we maneuver them [Japan] into the position of firing the first shot." He apparently did not realize that the "back door" access to World War II was about to be opened. Four days after these thoughts and three days after Hull's 10-point ultimatum the Japanese made the decision to implement the long-planned and long-anticipated attack on Pearl Harbor.

Motivation for Roosevelt's actions has been established. He knew: that World War II would be lost to the Allies without American participation; that political opposition to the war required an attack to silence the opponents, unify the nation and create a will to win; and that Japan had to be the precipitating agent because of its resource vulnerability and military commitments.

America's position was clear in 1941. Japan's position was equally obvious. Emperor Hirohito's country could either go forward in honor or retreat in disgrace. They chose to go forward on November 29, 1941, east toward Hawaii.

Japan had two logical reasons for attacking the Pacific Fleet.

FIRST, They had been given the motivation to attack by the refusal of the United States to lift the oil embargo; and

SECOND, Japan had been given a target too obvious to miss. The only thing standing between them and the conquest of Asia and the oil resources of the Dutch East Indies was the US Pacific Fleet tied up in Pearl Harbor. The fleet was described as an arrow pointing at the heart of Japan. It was bait in a trap.

The Japanese navy was given the opportunity to make the "surprise" attack successful by a series of American decisions that made failure impossible.

These factors, the motivating forces in America and Japan, made Pearl Harbor an actuality. The only question has been, did Roosevelt know. The answer is "Yes" because he knew about the time of the attack.

Pearl Harbor could not have been a surprise to anyone who was privy to the chess-like diplomatic and military moves that preceded it.

FDR knew there would be an attack because he wanted it. So, just as in the early Western United States when a sod buster was goaded by the rancher's hired gun to draw his six shooter first, the farmer's death was in self defense; the United States, too, could claim the moral high ground of self defense. Also, Roosevelt knew that Japan had no option but aggression since the negotiation for resumption of oil shipments to Japan had failed. He had pushed the Japanese further than their pride would allow.

Next, Roosevelt had to know the target because there simply was no other logical place to attack. "Wherever the fleet was there would the danger be greatest. Pearl Harbor was the only possible objective because that is where the fleet was", said Major General George V. Strong.

Another factor suggesting Pearl Harbor as the objective was US Navy preparations since 1924 for war with Japan. Operation Orange was the naval plan for coping with a Japanese attack on Pearl Harbor. In 1932, Admiral Harry E. Yarnell, playing the role of the Japanese in an Orange Exercise, used planes from the USS Lexington and USS Saratoga to successfully "bomb" Pearl Harbor. Interestingly enough Japanese observers were there during Fleet Problem XIX in 1938. Admiral King did the same thing in a similar Orange exercise. There was no other "enemy" anticipated and no other target. Since 1931, all graduates of the Japanese Naval Academy were required to write a paper on "How would you carry out an attack on Pearl Harbor".

Two other factors need mentioning. Admiral James O. Richardson was relieved February 1, 1941 as commander of the Pacific fleet after only 13 months because he insisted that the fleet be moved from Pearl Harbor to the Pacific Coast for greater security. He was replaced by Admiral Kimmel who accepted the Pearl Harbor "hazard." Secondly, only one US base was the subject of espionage. US intelligence intercepted a grid map of Pearl Harbor showing the precise location of all the ships there.

Knowing the attack would take place and the only possible target for it, FDR was left with only one other question to answer -- when would the attack occur. The escalating tensions resulting from Hull's 10 point ultimatum to Nomura, changes in the Japanese cabinet, the disappearance of the Japanese carrier fleet December 2, 1941 with complete radio silence, the concept expressed in April 1941 that an attack would be on a "weekend or holiday", and the knowledge of Japanese Military history, had shown the Japanese would attack by surprise and declare war simultaneously and most of all "Magically".

U.S. intelligence had complete access to the Japanese Diplomatic Purple code. Roosevelt knew the Japanese response to the Hull ultimatum. He knew the Japanese Embassy in Washington had been required to destroy cryptographic instruments and deliver a message to the Secretary of State no later than 1:00 P.M. Washington time December 7, 1941. "This means war" FDR said Saturday December 6, but nothing was done.

The inescapable conclusion is that Franklin D. Roosevelt had to know that Pearl Harbor would happen. Circumstantial evidence virtually proves it. A brief recompilation - America had to get into WWII combat. To do this because of political opposition and to gain National unity, the United States had to be attacked. Japan was the only country that could, and would, do just that. Japan was given a motive, a target and an opportunity to attack. They took advantage of it. FDR had set up the circumstances leading to the attack, he clearly arranged for a target to be tied up in Pearl Harbor and he could not have been unaware of the timing of the attack.

Was it an incredible series of coincidences that all of these factors fell into place so nicely? Or as some would write, so disastrously? Were the Navy, the Army and the Government leaders -- President Roosevelt, Secretary of State Hull, Secretary of War Henry L. Stimson, Army Chief-of-Staff General George C. Marshall, Chief of Navy Operations Admiral Harold R. Stark and the commanders in Hawaii, Admiral Kimmel and General Short -- totally inept, incompetent and ignorant? A quick look at the list makes such a conclusion virtually impossible. These were brilliant men. One can accept that Kimmel and Short were apparently misled. Others in the list, Hull, Stimson and Stark may not have seen the whole picture. But no one can doubt that Marshall and Roosevelt were far too brilliant, too well-grounded in historic and military perspective and too clever to have stumbled so badly.

It could have been, as history had judged it to be, an unbelievable series of events. But the impelling urgency for American action and the motivation so perfectly chosen to tempt the Bushida character of the war time Japanese government suggests a beautifully orchestrated plan. The harmony of it was too close to have been accidental.

Events leading to that "infamous day" make the premises and conclusions already reached extremely difficult to deny. Japan's amazing miracle of modernization, from a mid-nineteenth century start, set in motion the inevitable conflict. Ironic indeed is the fact that the United States initiated the change.

Victory over China in 1895 and Russia in 1905 clearly established the power of Japan's military, particularly the navy, and gave Japan a taste of territorial expansion.

World War I gave the Japanese a boost into international major power status. Japan's acquisition of former German Pacific possessions and the temporary incursion into civil war-torn Russia suggested expansionistic tendencies.

Industrialization, with its obvious need for raw materials and markets, brought Japan into economic competition with the traditional giants -- England and the United States. The Manchurian Incident in 1931 led to the conquest of Manchuria by the Japanese army and the subsequent establishment of an "independent" Manchukuo under the last emperor of China, Henry Pu-yi. Condemned by the League of Nations, Japan withdrew from that body in 1932. The army had taken control not just of Manchuria, but of the Japanese government as well.

Japan invaded China in 1937 to continue the collision course with World War II. It was a war of space and time as the Chinese government moved its capital up the Yangtze River, past the three gorges, to Chungking.

Prior to these events, the United States Navy had begun preparations for the expected war with Japan. Orange was the code name given to the eventual aggressors. Exercises anticipating an AIR attack on Pearl Harbor showed that it could be done.

The first "War Game" to demonstrate the operation was led by Admiral Harry E. Yarnell on February 7, 1932. Thirty minutes before dawn 152 planes successfully "attacked" Pearl Harbor before returning to their carriers. Japanese military observers were there.

Admiral King had equal success in Fleet Problem XIX in bringing his carrier task force within striking distance of Pearl Harbor in 1938. There was never any other target, only Pearl Harbor and the Pacific Fleet, anticipated and planned for by the U.S. Navy.

World War II began when Germany invaded Poland September 1, 1939. World attention was on Europe not Asia. German military conquests in Western Europe led Japan to accept partnership with Germany and Italy.

The Tripartite Pact was signed September 27, 1940. Outgrowths of this AXIS Accord were: the Russian problem was solved with Germany's help; Japan signed a neutrality pact with the U.S.S.R; the Japanese were to get European Pacific colonies; the war in China could be brought to a close; and the United States would be isolated.

America was moved to action instead. Scrap iron was added to the Embargo list with aviation fuel which was no longer shipped to Japan as of July 1940. Total oil embargo did not go into effect, along with the freezing of Japanese assets until the following year, July 1941. The oil embargo was in response to the Japanese army's move into Indochina. These decisions by the Roosevelt Administration had the effect of driving moderation out of Japanese thinking and forcing the government of Prince Konoé to consider war against the Americans.

Was the total embargo of American oil, virtually Japan's only supply, an act in response to Japan's French Indochina expansion or a calculated challenge to the Japanese military? Certainly the neutrality pact with USSR had relieved Japanese Army planners of the threat from the North and had freed them for adventures in the South. Japan recognized that those moves would endanger the relations with the United States, but it was a risk worth taking. When the American oil embargo was applied, it was a risk they HAD to take. Japan had less than two years of oil reserves on hand. It had to have oil or begin backing down, which they could not do. The Dutch East Indies had the petroleum resources Japan had to have, IF the United States could not be persuaded to end the embargo. Not surprisingly, the United States did not end the embargo. Therefore, it should not have been a surprise that Japan attacked the one and only target ever planned -- the Pacific Fleet in Pearl Harbor.

The year 1941 had begun with a warning in January from the American Ambassador of Japan, Joseph C. Grew. He urgently wrote that the Japanese were planning an attack on Pearl Harbor. In view of operation Orange, the worsening relationships with Japan, the military take-over of Japan's government and the deteriorating Allied positions around the world, it is amazing that the American government chose to ignore his prophetic message.

February 1, 1941, Admiral James O. Richardson was fired as commander of the Pacific Fleet, after only thirteen months on the job -- unheard of in peace time naval assignments -- because he wanted to move the fleet back to the Pacific Coast. Did Roosevelt relieve him because he did not want to appear to be "stepping backwards" and in therefore "lose face" with Japan, or was it because without a virtually unguarded and vulnerable target, the Pacific Fleet, to attack Japan would not? In view of the fact that there were no support vessels available for the fleet to move aggressively towards Asia, the logical conclusion was to bring them to safe harbor. There was another purpose for the ships' presence -- as bait for a trap. Japan's position was made simpler by the failure of Germany's surprise invasion of Russia June 22, 1941. The Cabinet had decided July 2, 1941 that if the German were successful, Japan would attack USSR. Winter found the German army still outside Moscow and Leningrad. The Japanese decision was then, if negotiations with America for oil failed, to declare war on the USA.

In August of 1940, Winston Churchill raced across the Atlantic in the HMS Prince of Wales to meet with FDR in Argentia Bay, Newfoundland. The Atlantic Charter was not the only result of that

meeting. The decision to defeat Germany first rather clearly implied that war with Japan was being planned.

Kichisaburo Nomura and special ambassador Saburo Kurusu were the two entrusted by prime minister General Hideki Tojo, who had been in power since October 16, 1941, to end the American oil embargo. Negotiations began in Washington with Secretary of State Cordell Hull November 17, 1941. There has been no question that Nomura was sincere. The Japanese wanted to be left alone to consolidate their conquests in Asia not to expand the war. But Japan had to have oil, either through diplomacy or war. They gave the diplomats the first try.

Unfortunately, Hull was not willing to negotiate. Was Hull's motivation simple dislike of military aggression or was he increasing the pressure on Japan to act? There is no doubt the former was true and the latter seems to have been the result he was willing to risk. Hull accepted the risk of war on principle, but apparently he was not seeking it.

While negotiations, in good faith on the Japanese part, were continuing in the American capital on November 25, 1941, "Kido Butai", the carrier strike force, left Hitokappa Bay for the attack on the Pacific Fleet in Pearl Harbor. Admiral Isoroku Yamamoto had planned the attack carefully but not enthusiastically. Vice Admiral Chyichi Nagumo had, aboard his flagship the Akagi, six aircraft carriers and 350 airplanes (40 torpedo, 78 fighter, 103 bombers and 129 dive bombers) for his mission.

If negotiations were successful the attack would be called off. Secretary Hull gave Nomura and Kurusa his final answer November 26, 1941. It was a Ten Point ultimatum; Japan would have to remove its troops not only from French Indochina and China but even Manchuria. Hull knew the Japanese could not, and would not, accept these conditions. "Magic", the word used to describe America breaking the Japanese Purple diplomatic code, made it clear to American Intelligence that Japan responded strongly to this rebuff. After November 29, 1941, "things will automatically happen". What "things" should not have been a problem to a navy that had been planning, for more than a decade, a Japanese attack on Pearl Harbor. Roosevelt knew the Japanese were backed into a corner. He knew diplomatic and military history, and he knew that America to get into the war. How could he not have known what the results of Hull's Ultimatum would be?

US military response to the deteriorating diplomatic circumstances was the War Warning sent November 27, 1941 to military installations in the Pacific, starting with Panama and ending with Hawaii. No emphasis was placed on Hawaii despite the years of preparation for the Orange attack on Pearl Harbor or the presence of the Pacific Fleet, the only target worth hitting in the whole ocean. Neither Kimmel nor Short apparently felt there was any particular urgency for them.

Two parts of that War Warning are significant. "Do not, repeat, not alarm the civilian population", clearly implies that there was no danger. Next, the message strongly suggested "if hostilities cannot, repeat, cannot be avoided the United States desires that Japan commit the first overt act". This principle had been clearly accepted by Roosevelt - in order to silence antiwar Senators like Burton K. Wheeler of Montana who said that "lend lease is a policy Triple A -- it will plow under every fourth American boy" and to galvanize a unified response to the Axis threat. In short, the War Warning said be ready, but don't do anything.

The day after the War Warning the Carrier USS Enterprise was ordered out to sea. December 5, the Carrier USS Lexington joined the Carrier USS Saratoga, which left two days earlier, in the safe space of the Pacific. No carriers were in Pearl Harbor on December 7. Was it just luck, as virtually all texts and books about the event suggest? If so, what wonderful luck indeed! To have the three most important ships in the Pacific Fleet safely at sea with all their airplanes and potential in modern naval tactics, clearly showed that God was on the US side. And to further enhance the miracle, the only capital ships in Pearl Harbor were obsolete old battle ships which were not, since Billy Mitchell in 1925 demonstrated the might of air power, a crucial part of Navy planning. IF one had to have a loss to gain the moral position then it should be the minimum necessary. Battle ships, impressive to see even in 1990 and glorious to command, a Navy tradition that has not died despite 65 years of experience, were expendable. Carriers were not. The "lucky" saving of the AIRCRAFT carriers was too good to be true.

The crucial event of December 2 was the disappearance of the aircraft carriers of the Japanese fleet. Kido Butai, the attack force, was deep in the emptiness of the North Pacific. Japanese radio silence and the code change of December 1 explained the Intelligence summary of the 14th Naval

District. "Almost a complete BLANK of information on the carriers today." The Akagi, Kaga, Soryu, Hiriju, Zuikaku and the Shokaku were steaming towards Hawaii.

When Admiral Kimmel was informed of this loss of contact with the Japanese fleet, he was quoted as saying "You mean they could be rounding Diamond Head and we wouldn't know it?" Only later did he realize how nearly right he was.

Two theories were being discussed in Washington. The Japanese navy was either going south to support the occupation of French Indochina or north for the invasion of USSR. Neither was logical because in both cases large Japanese armies were already in position in both potential combat zones. In neither area was there an enemy Naval unit to attack and, most importantly, there WAS an enemy naval unit to attack elsewhere: not south, not north, but EAST.

With the other information in hand -- years of Operation Orange, "Magic" knowledge of Japan's government crisis in the War Message --the disappearance of Japan's aircraft carriers should have been easy to understand. How else, after all, had Pearl Harbor been successfully "attacked" in War games. But no emphasis was placed on this development by ignorance or complicity.

Neither Admiral Kimmel nor General Short, who had the actual responsibility of providing defense for the fleet in Pearl Harbor, knew about the information available through the "Magic" decoding of Japanese Diplomatic messages. They could not be expected to put two and two together because one of their "twos" was missing. It was in the White House. Because the two commanders in the islands did not know the gravity of the weekend of December 6 and 7 was not different from other peacetime Saturdays and Sundays. What better place to relax than in Hawaii.

Many islanders were in Honolulu for the Shrine Benefit Football game between University of Hawaii and "Spec" Keane's Willamette University eleven. The local team won 20 to 0. Neither team knew that the final decision to "climb Mount Niitaka" (attack the Pacific Fleet) had been made four days before the game. They would participate heroically on Sunday.

In Washington on December 6, 1941, Navy cryptographers decoded "something big." So important was it that when FDR read through the decoded message he was heard as saying "this means war..."

What was in that message? The Japanese Embassy was instructed to destroy all cryptographic machines and materials and to deliver a message to the Secretary of State at 1 PM Washington time December 7, 1941. If one were aware of the strained-to-the-breaking point relations between the US and Japan -- the embargo oil, and the ultimatum that ended any hope of renewed American oil shipments to Japan with the clear implication of invasion of the Dutch East Indies, then one could reach just one conclusion -- war.

International Diplomatic understanding protected all Embassies including Japan's, but if war was declared it would be imperative not to allow secret devices or information to fall into the hands of the enemy (Japan did not know about America's "Magic" advantage). What else could destruction of codes and machines mean.

Even more importantly and obvious, what other message would the Ambassador deliver to the Secretary of State than a declaration of war? Again the circumstances clearly suggest this and so does history. Japan's wars with China and Russia began with an attack and then the declaration of war. Operation Orange had always been predicated on a sunrise surprise attack and a simultaneous declaration of war. Even that the attack would be on a weekend or holiday had been anticipated. Here it was -- a week-end -- and all signs pointed toward an attack somewhere. Where would the Japanese attack at 1 PM Washington time? The Philippines? Panama? Guam? Midway? The Pacific Fleet was in Pearl Harbor and 1 PM Washington time was dawn in Hawaii -- 7:30.

The only place the attack could be and the only time, and yet Roosevelt still did not know! Harvard and Columbia Law, Navy Department in World War I, Commander-in-Chief since 1933 - and though thought to be intellectually lazy by many, Roosevelt, was not stupid. Perhaps "none so blind that will not see" explains FDR's inability to act on obvious intelligence.

Roosevelt even thought about calling Admiral Stark, but when he learned that "Betty", as he was called, was at a performance of "The Student Prince" at the National Theater, he decided not to cause an alarm.

December 7, 1941- began early. Each event, had it been understood in the larger context, would have been a clear signal. But none in Hawaii had been especially alerted to an impending

attack. They did not even know things had gone that far diplomatically. So there was no one West of the White House who could see what these events meant. Then again, they were not meant to.

At 0340 Hawaiian time, a midget submarine was sighted -- the first contact. How did the Japanese get so close? The decision had been made IN Hawaii, with no contrary advice from Washington not to fly patrol planes that might have intercepted Japanese airplanes or discovered Japanese ships. Two reasons were given: not enough airplanes and the airplanes had to be readied for war. No reconnaissance missions were flown.

At 0645, two privates, Joseph E. Elliot and Joseph L. Lockwood, operating at RADAR, sighted a large number of in-coming "blips" 132 miles away. The response to their alarm call was "don't worry about it." Apparently it was assumed that these were the expected B-17's from the mainland. But why would a flight from the East be approaching from the Northwest? Had the officer of the Day known the precarious situation, he might have been more concerned. He did not know, but FDR did.

At 0653, the USS Ward sank a submarine. An overt act despite the warning from the Navy Department that "Japan must be given no opportunity whatever to claim that he had taken some overt action that forced the state of war on them."

Both the submarine sighting and sinking and the Radar warning would have been understood in context had a message from Chief-of-Staff General George C. Marshall arrived in Hawaii at 0430. It did not. The decoded message finally did arrive on General Short's desk at 3 PM. One of the great ironies has been that the cablegram was actually delivered to Short's headquarters as the bombs were falling. The fact that the bicycle messenger boy was of Japanese descent only adds to the poetic picture.

A crucial question, asked many times by Congressional investigating Committees and military inquiries, was why did General Marshall not call Hawaii. Marshall said that he did not know "just what the significance of the hour set (1 PM) may have been." Is it possible that this brilliant mastermind of our World War II military and later Secretary of State did not know the historic harmony of Japanese attack and declaration of war?

Marshall must have known about Operation Orange, oil embargo and the disappearance of the Japanese fleet. Apparently, he saw no immediate problem. Marshall, as Chief-of-Staff, lived at Quarters #1 on the Bluff overlooking Washington D.C. on the grounds of Ft. Myer, Virginia. It was his habit to go for a horseback ride in the morning. "DO NOT disturb" was SOP (military for Standard Operating Procedure). He was interrupted at 10 AM with intelligence that clearly indicated the 1 PM crisis. If he did not know the significance of the hour then his actions are understandable. Because he feared that a phone call might leak "and embarrass American relations with Japan," he did not use the scrambler phone. Instead, he sent his warning by commercial RCA lines with NO PRIORITY. It was received in Hawaii at 0733, 12 minutes before the attack began.

If General Marshall did know -- in concert with his Commander-in-Chief -- exactly what 1 PM meant, then actions were, again, understandable. Had Pearl Harbor been warned by the Chief-of-Staff to expect a dawn attack in 3 HOURS one can only imagine what effective defense measures might have been taken. To suggest the attack would have been blunted has been the very least that could be concluded.

An appropriate metaphor, based upon the premise that Marshal and FDR knew, would be attempted rape. Attempted rape is not nearly as serious a crime, in the eyes of the public, as rape/murder. Pearl Harbor, as it happened, was "Rape/Murder" and the public, outraged, unified, got revenge at Hiroshima and Nagasaki and won the war.

At 0750, the "surprise" carrier-based air attack on Pearl Harbor began. It was not, as in 1932 and 1938, an exercise. Orange had achieved what Yamamoto thought impossible -- surprise. Could it have been achieved without "help" at the highest level? Would just plain careless bumbling and typical military and presidential ineptness and inefficiency have been enough to guarantee the tactical success of the attack? Was it plain dumb luck that the carriers were not in Pearl Harbor? No one will ever absolutely know for certain, but logically the evidence suggests cooperation.

Before the attack was over, 87 naval aircraft and 77 army planes had been destroyed on the ground. Five battleships had been sunk. Only the USS Arizona was not raised and repaired. The hull still serves as the final resting place of the men trapped inside. Three other battle wagons were severely damaged. A total of 1,178 service men were wounded and 2,403 were killed.

“Any politically literate American knows that the United States is not fighting for democracy (against Iraq) because there is none in the Arab World. It is not fighting for the right of Kuwait Royal family so that it goes on running the place like a private oil plantation ..... No, the United States moved into war position (to stop Iraq) from controlling a resource that is basic food for industry and can mean the difference between economic life and death.”

A. M. Rosenthal, *Herald Tribune*  
Aug 27 1990

“If Iraq violated the law of nations by invading Kuwait, so did the United States by invading Grenada ....”

Senator Moynihan, *The Law Of Nations*

## *Chapter 10*

### **U.S CONTROL OF INTERNATIONAL OIL A Case Study: Control Of World Resources**

The American study papers at the start of WW2 that produced the economic globalization vision through the "Grand Area Plan" specifically stated that the United States economy must have easy access to world markets and natural resources without any stresses. The Grand Area was defined as the Western Hemisphere, the Far East, the former British Empire, the Middle East, the rest of the third world and the whole world as opportunities allow. The third world was to "fulfil its major function as a source of raw materials and a market" as a 1949 memo from the state department described it. George Kennan, who headed the state department planning staff until 1950 proposed that these underdeveloped areas, specially Southeast Asia and Africa be "exploited" for the reconstruction of Europe and Japan. The United States wanted them both to recover after their devastation in WW2. But with one condition: the United States must control their oil supplies, thus having a "Veto Power" (in the exact words of George Kennan) over them in case they decided to get out of line at a later date. The key to keep Europe's and Japan's new state - capitalist system in line was for the United States to keep its hands on the lever (and valves) of world oil. This control process started at a time the U.S was the biggest oil producer in the world after WW2. The control process was completed by the Gulf War and the collapse of the USSR. Such process went through stages that included Iran's oil, Libyan newly discovered oil, North Sea oil, Alaska oil, the 1973 oil war and the 1990 Gulf war.

In 1990, the United States was in a very unique position:

- It became the only superpower in the world after the implosion of the Soviet Union.
- The time for the creation of the economic globalization and expanding the "Grand Area Plan" to include the whole world is now possible. It may be "now or never".
- The U.S. as the only superpower has more reason now than ever to control the oil. It imported 45% of its oil in 1989 and its studies indicated it may have to import over 65% of its oil by the end of the 1990's! About 40% of the 1989 trade deficit of the United States resulted from oil imports.
- With nuclear power practically halted as energy supply source in the United States to around 7% only, oil accounted in 1989 for 41.9% of the United States energy supply, gas accounted for an additional 24%, coal and coke 23.3%, hydropower 3.5% and other sources 0.5%.
- The Central Asian and Caspian sea Republics can now be "assisted" to "independence" and their huge oil deposits secured and controlled.

The control of international oil now was not only a preferred option to the U.S, it became an internal security item and of great strategic importance; and there was no better time than 1990. It was only how these operations of oil control be staged and packaged. But the United States which was acting on behalf of the infofinancialists never lacked the imagination and scenarios to create the "right" conditions to sell its (control operations) first to the American people, and secondly, but incidentally, to the people of the world. And the infofinancialists never had an ethics problem to create the scenarios needed regardless of how unethical it may be. As for imagination, Hollywood and its imagination belonged to them. As for ethics, capitalism has no ethics, as capitalism's most renowned theoreticians profess. Even at the start of the 20th century President Woodrow Wilson's Secretary of State explained that the operative meaning of the Monroe Doctrine was that "the United

States considers its own interests. The integrity of other American nations is an incident, not an end". Integrity of all other nations became an incident indeed.

American policy planners considered the geographical location under which oil was produced as a geological accident, specially in the Middle East, and they thought it is their right to correct this accident. To them, modern petroleum technology was basically an American creation. It was American oil geologists, technology, money and companies that first defined its existence, then got it out of the ground. It was the United States that needed it the most. Pre-1990 the United States goals were clearly defined: oil was a national security item, the price of oil was a national security item, access to oil was a national security item. This was a declared U.S policy and was officially made clear to whom it may concern through the Carter Doctrine which said: the United States considered oil and access to it, specifically of the "Persian Gulf" as a national security item, for which the United States was ready to use all means to protect it, including the use of force. Even as far as the 1970's, specific war games and plans were ready and the Central Command in Florida was created for such an eventuality. War games that specifically forecast a possible Iraqi invasion to Kuwait were drafted by the Pentagon. Even magazine articles were published about such a possibility. The May 7, 1979 issue of FORTUNE Magazine published a war game scenario that described possible American military response and plans in case of an Iraqi invasion to Kuwait based on border and other disputes. Page 158 under the heading "If Iraq Invades Kuwait....." said. "Iraqi armored forces, using primarily Soviet equipment, could overrun either nations quickly. Assistance, if requested, would initially involve U.S tactical airstrikes against Iraq's armor and its air support - and possibly threats to destroy Iraq's oil facilities. To dislodge Iraqi ground forces would require marines from the 6th and 7th fleet and infantry from the eighty - second and 101st divisions". The plan envisaged "An Army In The Sky" to move the troops and the utilization of the U.S Airforce Strategic Airlift - the seventy giant C-5 A's and 234 smaller C-141 transports plus seven hundred KC-135 tankers for in-flight refuelling."

The decade of the 1990's was the decade to create the new world order, and the first major point in the agenda was to secure control of international oil. The OPC prepared the most professional and most qualified team for the job of the final operation of oil control-specially in the Gulf:

- George Bush not only understands oil, he once owned an oil company. He's familiar with the business, and therefore very qualified for the job of operation management of world oil control. Besides, he once managed the CIA, and therefore he is a national security establishment icon.
- The Secretary of Defense Dick Cheney also served the national security establishment. Ironically, after leaving Washington, he became a CEO to a Texas-based oil services company.
- Collin Powell, the joint Chief-of-Staff was a member of the national security establishment and he was made Chief-of-Staff of the Armed Forces. He served as a National Security Advisor a short while ago, and being also a graduate of the national security establishment at this time seemed to matter most.
- The incumbent National Security Advisor Brent Scowcroft was an old National Security Establishment hand. Even when out of government, he worked for Kissinger Associates.

These qualified people can share a secret, and the secret was the creation of a post cold-war world order that included U.S control of international oil. Many believed that the U.S fueled the Iraqi Kuwaiti crisis:

- Instead of decisively stating its position in case of an invasion, the American Ambassador April Glaspey gave the impression of indifference and that the issue is an Arab-Arab affair.
- At times of crisis where diplomacy was most needed, the American Ambassador left Baghdad a week before Kuwait was invaded and at the height of the crisis. Many Arab governments tried to mediate, including Saudi Arabia that tried to defuse the crisis by inviting Kuwait and Iraq for a meeting to resolve the problem before the invasion. Also, King Hussien of Jordan attempted to find a solution to the problem within the Arab league. Both the Saudi Arabian initiative before the invasion and the Jordanian initiative after the invasion were not backed or assisted by the American Administration.
- The on-duty national security officer warned the White House (according to TIME) that the invasion of Kuwait became a certainty not a possibility and his message was ignored.

And Kuwait, a country of 2.1 million barrels of daily oil production was invaded by Iraq. Among other things, Iraq claimed that Kuwait was pumping more oil than Opec quota allowed it; was selling it below posted prices causing Iraq one billion dollars loss per year for every one dollar less on

the oil price, and Kuwait was pumping oil from the Rumaila field through directional wells, from a field that lay mostly under Iraqi territory.

One may assume that the flooding of world markets with oil just before the Gulf war was to prepare world markets for a possible embargo on Iraq-Kuwait oil and thus to prevent sharp oil price increases as a result. One can argue now that such a step was another indication that the OPC was precipitating the Iraqi-Kuwaiti conflict.

And all the plans for U.S intervention were ready for implementation. The United States used the United Nations as a useful vehicle in its diplomacy even though the United States, the richest country on earth, was then the most indebted nation on earth on payment of its UN arrears. The necessary resolutions for intervention were secured. It might have been more useful if the U.S used the same influence to stop the invasion before it occurred.

Not only this Gulf War would provide control of oil, but it will provide an opportunity for the United States to use and cash all its redundant stockpiles of armament stored for NATO against an imploded Warsaw pact. It would provide an opportunity to test new weapon systems it had no opportunity to test before as Pentagon strategists hoped. And those oil states which saved their extra petrodollars for the future generations were forced into a position where they ended up losing those petrodollars. When the Japanese and Germans said they could not participate in the war because their American - written constitutions did not allow them to participate in military conflicts, they were told that constitutions can be amended. And, cash payment may do just as well.

The United States under a U.N umbrella, went to war against a third world country of 17 million and....surprise: it won. The American people were told that now they can celebrate the death of the Vietnam syndrome in which some 250,000 American soldiers were dead or wounded.

At the end of the Gulf War, regional foes and friends lost. Iraq was devastated, Kuwait that used to have more income from its investments than from its oil revenue, lost much of that investment and its economy laid in ruins. The Kuwaitis were good investors and at one point they owned a big share of British Petroleum. Other oil countries lost a lot of their money reserves that they saved during the seventies and in the eighties.

By the end of the Gulf war in 1991 everybody in the Middle East and many of those who joined the war lost. Also the price of oil went down to its pre-1973 level! (In constant 1973 dollars.) The only winner seemed to be the United States and the OPC.

The other area with huge oil reserves but less known until recently in the west was the area of the Caspian Sea and Central Asian Republics. They were part of the "evil empire" of the USSR until its implosion. As the United States was re-defining and recreating a new world order, it wanted to assure access to these resources and oil reserves, and nothing would do it better than having these areas as independent republics away from Russian control. And so they became independent thanks to U.S help. The USSR disintegrated and its pieces fell where the United States wanted them to fall.

Few years only after colonel Drake drilled his first oil well in Pennsylvania in 1859, Baku - Azerbaijan, then under Russian control started to rival the big producers of the United States. In the 1880's some of the world's biggest oil wells called Droozba (friendship) gushed out 43000 barrels of oil per day. Russian oil production, mostly from these areas, rose 10 times in 10 years and reached 23 million barrels by 1888 - roughly 80% of the U.S production capacity - Russian oil not only drove Standard Oil out of Russia, it started to compete with it in many other countries. Standard Oil wanted to acquire Russian oil in 1890 but failed in its bid. What they could not achieve in 1890, they were able to achieve in the 1990's. Estimates now suggest that the Caspian could hold 178 billion barrels of oil which is almost double the reserves of Kuwait and can meet all the U.S energy needs for 25 years. Some \$10 billion worth of agreements already were signed at the White House on August 1,1997 by Azerbaijan's state oil company with Exxon, Mobile, Chevron and Amoco. Similar arrangements are under-way at the eastern side of the Caspian with Khazakhstan. A consortium including Chevron is building a \$2 billion pipeline from Western Khazakhstan to the Black Sea. After securing the world's biggest oil reserves plus its own oil, the U.S is now in the driver's seat and can command prices and conditions it sees appropriate to serve its economy and its economic globalization plan. And oil is priced and paid in U.S dollars only.

Ironically, the United States' first involvement in Middle East oil was in Iraq where Washington proclaimed an "Open Door" policy after the WW1 and asked the oil companies "to go and get it". That was at the early 1920's. At that time the British and the French had little resources of

oil for themselves and they wanted the Middle East oil to be their Texas. After WW1, the share of the Germans in the Turkish Oil Company in Iraq was given to the French. The United States was excluded. The British and French were determined to exclude the Americans out of the area and they told the Americans that they (in 1922) controlled 82% of the world oil production (in U.S.A and Mexico), where as the British oil production in Persia (Iran) and elsewhere did not amount to more than 4.5%. The Americans pressed hard and finally they were allowed a piece of the Iraqi oil cake before it was even produced. The company that was formed during the Ottoman Empire under the name "Turkish Oil Company" was renamed to become "Iraq Oil Company" - IPC. It was made of:

BP :	23.75 %
Shell :	23.75 %
CFP:	23.75 %
MOBIL :	11.875 %
EXXON:	11.875 %
Gulbekian:	5 %

So the United States entered the Middle East oil first through Iraq, and made its final operations to control the Middle East and international oil by its war against Iraq also. Likewise, France created CFP and Iraq oil was its only source of oil.

Now with the Americans on board, the British who had a mandate over Iraq, installed a government and they forced the Iraqi government to sign the IPC agreement where- by Iraq will be given 4 Shillings/Ton (about ½ shilling per barrel) instead of 20% share as was agreed in the San Remo Peace Treaty. Practically, America was given the share of the Iraqi government. Two Iraqi ministers resigned in protest.

The consortium of companies that made up the IPC made another agreement that became known as the Red Line Agreement. The companies agreed that they will go together or none at all for oil in the previous Arab provinces of the Ottoman empire that lost WW1, except for Iran and Kuwait. BP (which was called Anglo-Persian and then Anglo-Iranian before taking the BP name) was created initially after the Iranian oil discovery to which it owed its existence. Also, CFP owed its creation to the Iraqi oil. Because of the Red-Line Agreement the same consortium went to the Trucial coast Emirates later called United Arab Emirates. The Abu Dhabi Petroleum Company (ADPC) was composed of the same companies and same percentages. Therefore when the oil companies wanted to penalize Iraq government in the early 1960's it simply decreased production in Iraq, and increased it in Abu Dhabi. The result was the same oil quantity to the companies passing through the straits of Hormuz, yet Iraq was deprived out of its oil revenues.

A secret agreement was uncovered some 25 years later by the American Justice Department in which it was revealed that oil companies formed a secret cartel as far away as 1928 to fix production quotas and oil prices which were imposed at the producing countries. The Justice Department decided the oil companies should be prosecuted criminally. Both the State Department and the Defense Department intervened on behalf of the oil companies, and wrote that "the oil companies, are for all practical purposes instruments of our foreign policy towards these (producing) countries." Since oil was the economic and political existence of these countries, such prosecution will do damage to the American "National Security". The same report said that the oil price (which these companies are setting) is very critical to Western Europe and thus very "critical to the strength and balance of payments position of this area, which is vital to our security." Thus low oil prices assisted "the balance of payments" of the European and other consuming countries at the expense of the oil producers without their knowledge or consent. This report was sent to the National Security Council (NSC) on January 9,1953. The NSC endorsed the State and Defense departments' report and accordingly, Truman requested Justice to dismiss the charges.

Kuwait oil concession and the way it was negotiated was a good example of how the producing countries were taken for a ride, and how the big business negotiates its deals. In 1927 Major Frank Holmes sold his Kuwait concession interests to Gulf in a package that included Bahrain for \$50,000. Gulf sold its Bahrain concession and kept the Kuwait one asking major Holmes to remain as its agent. British Petroleum was casual about Kuwait since it had lots of oil in Iran and Iraq. Besides, its geologists saw no oil prospects there. But this changed suddenly after American SOCAL

found oil in Bahrain, in which BP geologists saw no oil also. Kuwait was a British protectorate. Therefore, Britain started to put obstacles to block any Gulf concession in Kuwait, insisting that companies operating in Kuwait must be British. While BP and Gulf agents were busy outbidding each other in Kuwait, Gulf had got itself into an influential position. After learning about oil discovery in Bahrain and reading his geologists reports, Andrew Mellon, a founder of Gulf and whose family owned 25% of its share, was ready for the fight. He got himself appointed as Ambassador of the United States of America in London. Certainly that appointment was a way to help Gulf. Under Mellon's blessings, and using his influence, BP and Gulf reached an understanding that they will have a joint venture 50% to each, rather than to outbid each other and disrupt the "oil order" of the Middle East. The Sheikh of Kuwait was surprised when the competing agents of BP and Gulf came to him this time in agreement wanting the concession at their own terms. And this is how, Kuwait Oil Company (KOC) was created in 1934.

Again through Frank Holmes who collaborated with Hajji Philpy (the father of the British double agent) a concession was signed with king Abdul Aziz Al Saud and Socal in 1933, the same year Socal exported its first batch of Bahrain oil. American geologist Everett de Golyer got it right from the start as his report after a geological expedition to the Arabian Peninsula said: "The center of gravity of the world of oil production is shifting from the Gulf (of Mexico) - Caribbean area to the Middle East, to the Persian Gulf area, and is likely to continue to shift until it is firmly established in that area." Inter-oil companies negotiations resulted in the creation of the Arabian American Oil Company (ARAMCO) - oil was pumped for the first time on May 1939.

Since the OPC believes that other people's wealth and natural resources are god-send goodies for them to exploit, the American undersecretary of the Navy wrote a memo to president FD Roosevelt suggesting the take-over of Aramco by the American government, as it became a vital interest of the United States to acquire petroleum reserves outside the United States. Just like the British government acquired BP, now the American government must acquire Aramco. On June 30 1943, the president authorized the formation of the Petroleum Reserve Corporation which was to acquire 100% of the Aramco concession. Secretary of the Interior Harold Ickes was named as its president. The secretaries of War, Navy and State were named as company directors. Abe Fortas was named secretary of the company. The first meeting was held on August 9, 1943 in the presence of the acting secretary of war John McCloy. The oil companies resisted the idea as un-American. It is government business to be of service to business and not vice versa, and as the WW2 was ending, the idea of American government direct ownership was shelved.

The other time the United states contemplated the creation of a government-owned "Federal Oil and Gas Company" was in the 1970's (according to HBS case 9-383-096 prepared by professor George C. Lodge and taught to Harvard MBA students). Detailed plans for Armed intervention were drawn for the middle east and it was followed in 1980 by the Carter Doctrine that clearly stated the United States considered oil as a vital commodity to the security of the United States and that it will use all means, including military force to ensure its access (and price). Price, according again to HBS case studies on the International oil control, is a national security item. About the same time the central command in Florida (that managed the Gulf War) was created in the late 1970's, the British proposed the creation of a Euro-American fleet based on the island of Diego Garcia at the Indian Ocean for joint European American intervention in the Gulf. The American B-52 bombers took off from this island during the Iraq-Kuwait Gulf War.

Let us argue here against conventional wisdom:

- The oil-producing countries were always blamed as creating an oil cartel: OPEC against the consumer countries. We advocate that OPEC was more of the creation of the consumer countries than the producing companies.
- Even though the 1973 oil price hikes benefited the oil producing states naturally, it was a win win situation that also benefited the oil producing companies as well as the United States. Most likely, it was even an incidental by product to an overall plan, in which the increased revenues of the producing countries was "recirculated" back and then shaved off and depleted via many schemes of which the Gulf War may have been one. Since oil price was declared by the United States as a national security item it can be reasonably assumed that huge price increases could have only been possible with at least a tacit approval of the United States.

Both these assumptions may be shocking to many, as this contradicts the conventional wisdom that was always propagated by the media. The burden of proof beyond reasonable doubt becomes our task here. If such proof was reasonably convincing, then one is requested to scrutinize all the "information" or "disinformation" that are being bombarded with by the OPC media day after day. And we start with OPEC.

The idea was very simple. Oil business was a cyclic business with extreme price cycles that occur specially when new discoveries of oil are produced. Each and every time such a thing occurred capitalism's market forces alone were helpless to control the cycles without inflicting disastrous consequences on the oil operators.

- A year after Drake drilled his first well in 1859, the oil went up as far as \$20 per barrel in 1860. In 1861, as a result of over-production, the price went down to 10 cents a barrel! This continued with one cycle after the other until Rockefeller took control in 1883 of oil transport, first by railroads and then by pipelines, and formed his "Standard Oil Trust".
- When Middle East oil was discovered and it became accepted that huge deposits and productions from the area are anticipated, the seven sisters i.e. the major oil companies entered into a secret agreement in 1928-1929 in which they agreed to control oil amongst themselves, secretly without the knowledge of even the producing states. The companies secret agreement was challenged and made public by the American Justice Department which wanted to file criminal charges against the oil companies. Thereafter, the oil companies shifted the functions of setting production quotes and prices to OPEC which had to be created after the Justice Department case.
- With the new discoveries in Texas and Oklahoma that also coincided with the Great Depression, Harold Ickes received a cable on May 5, 1933 that the price of oil in East Texas has dropped to 4 cents per barrel! The same day, the Secretary of Interior received another cable from the Governor of Texas stating that "the situation is beyond the control of the state authorities."

The oil industry was about to collapse with disastrous consequences. Ickes mused that "so many of these great and mighty were crawling to Washington on their hands and knees these days to beg the government to run their business for them." On July 14 1933, the president signed an executive order that prevented any petroleum from crossing state lines if it is in excess of the state quota, and quotas were set to each state. The role of the state was further formalized in 1935 under the Interstate Oil Compact which allowed the states to co-ordinate production, standardize legislation and exchange information and plans. People learned that oil was a commodity which price had little effect on its demand. Since you cannot sell much more at 10 cents a barrel than at 2\$ a barrel, why over-produce and commit suicide! So the advocates of free - market capitalism found that (State Intervention) to co-ordinate production and therefore prices, by the producer states was a necessity. And such a co-ordination was to be the function of OPEC in the future and the reason for its creation.

As the 1950's were getting to an end, many events on the international oil scene were creating conditions similar to the American national oil scene that prompted the creation of coordinating state legislation to control production and prices.

- Huge discoveries were identified in Libya and the first Libyan oil shipment from the Zelten field was shipped in April 1959. Libya had a high quality of oil with an advantage of lower refining cost and proximity to European markets and it was expected that the Libyan production will increase at very fast rate in the 1960's which it did. By 1965 Libya became the sixth largest exporter of crude and by 1969 it exceeded the production of Saudi Arabia at above 3 million barrels per day. Also, France discovered oil in Gabon and then in Algeria in 1956. It was first exported in 1958.
- Shell and BP found oil in Nigeria in 1956 at the swampy delta of the Niger River! Not the least important was the first big hydrocarbon discovery at the North Sea. It was an Exxon Shell joint venture that discovered gas off the coast of Holland at Groningen in 1959.

With all these huge discoveries a repeat of the U.S overproduction of the 1930's would now occur on the international scene and a co-ordinating regulatory organization was needed immediately.

- Many new producing companies were independents who lacked marketing outlets and pursued aggressive marketing and pricing policies. The oil companies club expanded greatly and with so many of them around, the big oil companies thought that these small players cannot keep a secret. After all, it was in the 1950's that the Justice Department made criminal charges against the majors

and it took a Secretary of Defense, a Secretary of State, a National Security Council and a president to get them out of the "woods".

- And worst yet, the USSR developed great new fields on the Volga-Urals area in the period between 1955-1960. The USSR became the second biggest oil producer after the United States. CIA director Allen Dulles saw red and said in 1958 at a cabinet meeting; "the free world faces a quite dangerous situation in the Soviet capacity to dislocate established markets." The CIA wanted no western country to depend on its oil supplies from the USSR as the case was developing in Italy. The state company ENI was the No. 1 Soviet oil buyer, and at certain times they bought oil at 50% of even the cheap price of Middle East oil. The chairman of the ENI group who was denied a piece of the oil cake by the major oil companies continued his game until his plane crash on October 27 1962. Some attributed his death to the CIA. At this point two alternatives were possible:
- Oil companies to keep undercutting USSR oil to drive it out of the market, which they did initially. The posted price of oil remained unchanged, and the producing states took their 50% on the basis of the posted price. The difference between the posted price and the selling price was taken totally by the oil companies, something they did not like to keep doing for long. But even if they did accept this, it will not solve the problem of the new production from Libya and other African countries which will result in a glut and severe cycles again. Also, the problem of "handling" the independents will remain unsolved.
- The other viable solution would be to control production and therefore prices at source by the states in which the production occurs in a similar arrangement that resolved to a great degree the problem at the American national scene. This of course will require the creation of some "organization" for the "petroleum exporting countries" that will do the necessary co-ordination at source. And that "Organization of Petroleum Exporting Countries" happened to be the name for OPEC! And OPEC was thus created in Baghdad on September 14, 1960. The initial signatories were Saudi Arabia, Iraq, Kuwait, Iran, and Venezuela. Together they accounted for 80% of the world's crude export market. At the time of signing the OPEC agreement, Kuwait was not yet independent and was a British Protectorate, since Kuwait as British Protectorate thought that OPEC was a beneficial organization to Kuwait, so did Britain think that OPEC was good to British Petroleum and the other major oil companies. It is important that we mention here that the relationship between producer countries and producing companies is not always a zero sum game i.e. what is good for the producing companies is bad for the producing countries or vice versa. Interest of both producing companies and countries can occasionally meet. Also, we again stress at this point that OPEC was not necessarily a bad idea. It was a vehicle as good or as bad as it may be used.
- And finally we must emphasize that most if not all participants in the creation of OPEC were patriots in their own way and to the extent of their knowledge, that they were creating a co-ordinating organization that should serve them well and prevent damaging price cycles by controlling production. Having said the above, we come back to assert our claim that OPEC was needed by the oil companies and consumer nations as much as by the oil producing countries. Yet OPEC and its producing members became victims of disinformation specially during the years following the 1973 price increases.

The main proponent of OPEC was Venezuelan Oil minister Perez Alfonzo. His go between contact to connect him to the Middle East oil officials was Wanda Jablonski:

- Perez Alfonzo studied medicine at John Hopkins University in Baltimore and then studied law when he came back to Venezuela. He became a minister of development. His relationship with the American Embassy in Venezuela was so close that he received a call from the U.S embassy in Caracas one day in November 1948 advising him that according to American Intelligence a coup was in the making that day and inviting him to take refuge at the embassy if he wished. The coup occurred and he was jailed and then exiled to Washington D.C. He devoted much of his time in Washington at the Library of Congress studying the application of similar regulatory institution like that was enforced in the 1930's to control and co-ordinate production - such as the Texas Railroad Commission which controlled the production quotas for Texas. When another coup occurred in Caracas in 1958, he was back to Venezuela and was given the job of minister of mines

and petroleum, a job he prepared himself very well while in Washington. He also immediately brought to his ministry an American consultant who was well-versed with the Texas Railroad Commission, on which model he hoped to create the organization of Exporting Oil Countries. He wanted to meet the Middle East oil ministers and Wanda Jablonski took over to accomplish that mission.

- Who is Wanda Jablonski? Born in Czechoslovakia, resident of New York, schooled in New Zealand, Egypt, England, Morocco, Germany, Austria and Texas. She even spent a month traveling from Cairo to Jerusalem by camel. Intelligence was the middle name of her declared profession as the editor of Petroleum Intelligence Weekly. By virtue of this profession she knew all the heads of states of the Middle East oil countries and knew all officials who counted in the oil industry. An Arab Petroleum Congress was opened in April 1959 and Wanda Jablonski was there. So was Perez Al Fonzo as an observer. She invited him to her hotel room, in Cairo and Al Fonzo met a leading oil minister and other Arab oil representatives. They agreed to meet secretly at the Maadi Yacht Club. In that meeting the participants secretly agreed to form what they then called "The Oil Consultative Commission" similar to the Texas Railroad Commission. A year later, OPEC was created.

Our second argument against conventional wisdom relates to the 1973 oil price increases.

The decade of the sixties was marked with new productions. Libya produced over 3 million barrels per day by the end of the 1960's. Gabon, Nigeria and Algeria went into and/or increased their production. But most importantly two areas in which oil was discovered proved to be carriers to great reserves but with one major problem: it was extremely expensive to produce this oil at the going prices. This would lead again to the other proposition, that the 1973 price increases were blessed if not planned by the United States and the other North Sea states. And again the burden of proof befalls on us.

The European States surrounding the North Sea agreed to and signed the Continental Shelf Act of 1964 in which boundaries of countries within the North Sea were defined.

Immediately thereafter:

- In 1965, BP found gas off the coast of England
- In 1969, the first north sea oil was discovered at the EKOFISK field of Norway.
- In 1970, BP discovered the Forties field north of Aberdeen - Britain.
- In 1971, Shell and Exxon discovered the BRENT field of the Shetlands.

Within this period another milestone occurred. Oil was discovered in Alaska by Atlantic (later called Arco) in June 1968 in Prudhoe Bay with Texas size oil potential. BP also discovered oil in Alaska in 1969. At the same time the United States oil production was getting close to its own consumption levels. In few years, it was expected that the United States will become a net importer of crude oil. So it was in the early 1970 that the United States became a net importer, thus creating a trade deficit because of oil imports!. At the going prices of oil, it was not economical to produce these huge oil fields neither in North Sea nor in Alaska. The United States wanted the Alaska oil to stop or minimize its oil imports and potential trade deficits. But also, the United States military planners were always uncomfortable that Europe, or to be more specific NATO depended always on oil that had to be transported from faraway places. It was almost unforgettable that the U.K almost lost WW2 when German U boats were sinking oil tankers going through the Atlantic to the British Isles. In addition to its economical value, the North Sea oil carries a great strategic value. With it, Europe will have under-ground oil storage for its NATO wars if and when they occur. But again price was the problem.

Probably, American planners super-computers kept giving them the same answer for each of the following questions:

Q: How can we make the North Sea oil production feasible?

A: Increase the price of oil.

Q: How can we make the Alaska oil production feasible?

A: Increase the price of oil.

Q: How can we make secondary and tertiary recovery methods to depleted oil fields economically

feasible and thus substantially increase the oil reserves within the United States?

A: Increase the price of oil.

Q: How can we increase our competitiveness against the booming economies of our Japanese and German partners?

A: Increase the price of oil.

Increasing the oil price was the answer to solve these problems. There was no other alternative. Of course, the oil-producing countries, were happy to increase the price of oil, which they believed justly that it was under-priced. At the time a barrel of oil was selling for 2 dollars a barrel, Evian bottled water was selling for \$35 per barrel.

It is more than an interesting coincidence that 1973 witnessed three extremely significant events:

- The Bretton Woods system was formally ended, and gold jumped to 20 then 10 times its previous level.
- Black gold -- oil -- likewise jumped 20 times and settled at about 10 times its previous level.
- These two extremely extraordinary events marked the start of a new economic world order. The Trilateral commission, which became the tool to manage and create consensus and plans for this new world order was formally announced in 1973!

But now, after 25 years of the oil price increase that started in 1973:

- Most of the African oil producers are indebted. Some, like Algeria have less oil revenue than what is needed even to service their national debt.
- Others saved for their future generations by selling the only product that was given to them by God and nature lost these savings through manipulative means
- And the price of oil in constant 1973 is now below what it was in 1973!
- And of course, the United States is now in total control of international oil.

How this helps the United States in commanding a global economy can be exemplified by the exercise of such control, along others, on the global economy. On March 17, 1998 oil prices plunged to \$12.91 a barrel from \$22 only six months earlier. Within a year from the end of January 1998 oil energy prices in the United States came down by 25%. The Asian crisis started when oil was at about 22\$ and was expected to have a negative effect on the American economy growth by 0.4%. But the cheaper oil now will give a boost to U.S economy by also about 0.4%. David A. Wyss, chief economist at Consultants Standard & Poor's DRI says "This almost offsets the effects of the Asian crisis on U.S economic growth." What a nice coincidence! Nice "coincidences" seem to happen only to those who can control the prices of commodities, oil, currencies and other global economic parameters. Bad "co-incidences" will happen to all others including those which oil constitutes their major wealth. So in the first quarter of 1998, oil prices are at or lower than what they were in 1973 (at constant 1998 dollars). While oil producers suffered, American Airlines for instance paid \$50 million less on its fuel in the first quarter of 1998 than what was budgeted. Gasoline was down to 80 cents/gallon at some States. Even at a dollar a gallon, in real terms, it is the lowest price in recorded history, according to the American Petroleum Institute.

If American airlines and other airlines and corporations saved billions of dollars on fuel cost, who is losing these billions? It is the oil producing states! The Russian economy went to a state of collapse as oil prices continued their free fall. The world largest oil producer will have a \$15 billion deficit for 1998. In 1994, Algeria had its IMF medicine in which it had to de-nationalize its industries and impose austerity. More than 400000 people lost their jobs as a result fueling anti-government sentiments. With 950000 barrel per day of oil and 115 million tons of gas/year (one ton of gas is valued at 80% of one ton of oil), Algeria lost \$3 billion dollars of revenue as result of the drop in oil prices. Even while conducting a civil war Algeria paid \$5.6 billion of its foreign loans in 1998, and must pay \$6.0 billion in 1999. With oil prices what they are in 1998, the Algerian government is contemplating further taxes and austerity measures to bridge the budget gap. This country, as all other oil producing countries, will be obliged to transfer the burden of oil price drop to their populations. Algeria, with 3 million already unemployed (28%), more austerity will only fuel more civil war. Is it now not clear that in a global economy, for every winner they must be losers? It's never a win-win game. It is a zero-sum game.

Our finance professor at Harvard Graduate School of Business, Sam Hayes, taught us about the use of the OPM: Other People's Money. The globalization process is teaching us about the extraction of other people's wealth and OPO: Other People's Oil!

"Most of the \$800 billion in currency that is traded ..(daily)... goes for very short-term speculative investments....that money is mostly involved in nothing more than making money. .... It goes for options trading, stock speculation, and trade in interest rates. It also goes for short-term financial arbitrage transactions where an investor buys a

product such as bonds or currencies on one exchange in the hopes of selling it at a profit on another exchange, sometimes simultaneously by using electronics.”

Joel Kurtzman, *The Death Of Money*  
New York, *Simon and Schuster*, 1993

“In this new battle ground for savings, market players will become a new class of stateless legislators. With the power of the purse, they will check governments ability to tax, spend, borrow, or depreciate their debts through inflation..... As more countries and companies hook themselves up to the global financial network, this shifting and stateless corps of fund managers and traders will not only be passing judgment. To preserve the value of their investments, they will become more and more directly involved in day-to-day affairs of state, meting out guidance, encouragement, and discipline on a day-to-day basis. The very sovereignty of nation-states, says London-based economist David C. Roche is being defeated.”

*BusinessWeek*, December12,1997

“Financial investors monitor and punish corporations or whole industrial sectors if their returns weaken. Finance disciplines governments or even entire regions of the globe if those places appear to be creating impediments to profitable enterprise or unpleasant surprises for capital. If this sounds dictatorial, the global financiers also adhere to their own rough version of egalitarian values; they will turn on anyone, even their own home country’s industry and government, if the defense of free capital seems to require it.”

William Greider  
*One World Ready Or Not ....* P. 25

## *Chapter 11* **THE EXTRACTIVE GLOBAL FINANCIAL ECONOMY** **A Money Casino**

Joel Kurtzman, also the editor of Harvard Business Review, estimated that for every one dollar invested in the real productive economy, 20 to 50 dollars are invested in the unreal, speculative global financial markets whose main business is to make more money and not to produce goods and services associated to the productive economy. Between 20 to 50 is a big gap, yet no one knows for certain exactly how much is the amount of that speculative money. From the \$800 billions in currency traded daily only \$20 to \$25 billions are used to cover the daily trade of the real economy, the remaining amount is speculative hot money managed by electronics and computer programs with one function and one function only; extraction of more money from the productive economy. This money, as explained in another chapter was delinked and became unassociated with any real value. The world became a global money casino. Inside a casino you are issued a specially-designed casino

money and you gamble with it. In the global money casino, new financial instruments that were created by the "owners" of the global money casino, such as derivatives, are not real money. You can't take a derivative out of the global money casino computer and buy a pound of tomato with it. But when you leave a casino after gambling, you end up with less real money or with more. Likewise, the results of the global money casino game are real. The global money casino owners end up with more real money extracted as a result of their speculative games.

It is almost incredible that the astronomical figure of \$1.2 trillion a day of foreign exchange trading across borders is performed by a very small group. "Despite the staggering volume the financial trading across borders is mostly transacted by a very small community; the world's largest thirty to fifty banks and a handful of major brokerages that do the actual trades in behalf of investor clients - wealthy individuals and the various pools of private capital, smaller banks and brokerages, pension funds, mutual funds and so on - as well as the banks own portfolios." (One World...p.23)

The "handful" of brokerages and institutions that monopolize the big part of the global finance system have no national loyalty, or better expressed, no loyalty none whatsoever except to their only loyalty: to make more money. They are not accountable to governments because they are bigger than governments. Amongst themselves they form a global government.

Allen Metzler a world authority on monetary policy and central banks estimates that if all central banks agreed to-gether to take a position to defend a currency against a speculative attack, the maximum they can manage to-gether will be \$14 billion a day compared to \$800 billion the financial speculators can throw around. Thus, they have about 50 times more capability than the central banks combined. The world's fourth largest economy of France, was attacked by the speculators in the summer of 1992 at a time everybody thought that the French economic fundamentals were quite right. But the speculators made a fortune in their attack against the French Franc on a technicality; France wanted to stay within the Exchange - Rate System (ERS). The result of the attack was that France had to do austerity measures as if it was a developing country.

If the fourth strongest economy in the world can be attacked when it is in a healthy state, then which country can be immune to such parasitic attacks?

The black Wednesday as it was called by the U.K was not so black to George Soros, who realized \$2 billions in a few days of speculation against the sterling pound. It was Soros against the Bank of England - or really Great Soros against Great Britain. In September 1992 when Soros noted that the pound sterling was trading close to the bottom of the ERM of 2.77 D.M to the pound he presumed that the U.K must raise interest rates to attract money even though the economy was in recessionary conditions. Soros sold sterlings short, the equivalent of \$10 billions. The Chancellor of the Exchequer was infuriated and declared that Great Britain can not be subjected to the rule of speculators. The government raised interest rate by 2% and declared it will borrow \$15 billions to defend the pound. Soros decided that the equivalent of \$15 billion dollars was the amount he will speculate with. He knew the British government could no longer defend the pound. Soros won the day plus \$2 billion in this brief speculation. The question is: what was the useful role Soros played in his financial "investment" other than extracting two billion dollars of other people's money ?! The speculative act of Soros was the cause of the British pound problem and not the result of it. He aggravated a condition that could have been corrected if not under speculative pressure. Likewise the speculative attacks on South East Asia were the cause of their problems at a time their real productive economy fundemantals were healthy!

Malaysian prime minister, once his country's currency became under attack in 1997 called those financial speculators as "international criminals!" He was more diplomatic at the Vancouver meeting of the Asian-Pacific Economic Co-operation Forum (November 97) as he criticized the "free - market advocates" for effectively asking the bail-out recipients to "surrender [their] independence" while they ignore the fact that "market forces are so prone to abuses as command economies."

The power of bankers and speculators heavily depends on their use of other people's money, which can also be defined as other people's energy. At their discretion they decide who else can enjoy its use or can not, or as banker John Buting was quoted as saying that bankers decide "who will live 'and' who will die."

Another source of power to bankers was their information: They were positioned at the center of information in their communities when bankers operated regionally and they are at the center of the information age as bankers are operating globally. And information was always power.

The Washington Wall Street Cronyism can be exemplified by the meeting held on Sunday May 7, 1995 by Clinton and ex-Wall Streeter, Secretary of Treasury Robert Rubin on Japan. Clinton asked about Wall Street and currency speculators reaction to the U.S. moves against Japan. Rubin advised that they already prepared themselves for the confrontation and arranged their positions accordingly. They will benefit from Washington moves to make the Yen a super yen at 79 to the dollar. And they will benefit when they make the yen a weaker yen by more than a third in few months. And they can make the money by simply having access to information. In this case, it is a (joint-venture) between them and U.S Treasury and financial institutions to subdue Japan, and to make money in the process.

A banker knew the balance sheet of almost everybody in his town or region. He knew how much money he has, how he spends it, and what are his projects for the future. He knew at what point he will be having liquidity surplus and at what point he may have a liquidity squeeze. Bankers had the power to create new money also. The banking system could create almost nine million dollars for every one million deposited assuming a 10% reserve deposit requirement. And that gave them more power. After the United States expanded beyond its "gold reserves" means, and after its cancellation of its Bretton Woods obligations, many U.S dollars ended in foreign banks or foreign branches of U.S banks. These dollars were not subject to the 10% reserve requirement as those dollars in the United States proper. These dollars were circulating in countries where there was no 10% reserve requirement, thus giving the global banking system a much higher lending capacity.

The explosion in the process of money creation resulted from:

- delinking money from gold.
- which made the expansion of eurodollars supply possible.
- and which resulted in the creation of new financial institutions, other than banks, that became involved in large-scale lending operations with less controls and reserve requirement than in the United States. Such institutions were incorporated outside the United States in the most convenient tax and other regulatory-generous locations.

The curve of the information age revolution progress, especially computers and telecommunications, almost started its significant leaps on the first half of the decade of the 1970's when gold and oil prices "exploded" their own way. And the real explosion in the global financial system took-off with the collapse of the Soviet Union. The opportunity to globalize the world finance is now real, and now it can include about an additional one-third of the globe. This new potential can provide unlimited and untapped opportunities. In the absence of any competition to capitalism, financiers can be more aggressive in demanding deregulation and free entry and free exit of their money. If the cold war era dictated some prudence, now financiers can be more to their nature. And the global financial game really took-off. So much money supply was created by these new institutions and new financial instruments that it can not even be counted with reasonable accuracy. That's why it was said earlier in this chapter that for every one dollar invested in the real productive economy, some 20 to 50 dollars are invested in the extractive speculative global financial economy.

One of the main reasons for the recent crisis of the Asian markets was a result of unprudent lending to these countries that were made by the new and old financial institutions. They acquired this new capacity to create money supply, and therefore, they had to create a corresponding demand for this money. As they are assured that they will collect their money come rain or shine via the IMF & U.S power, they did not need to be prudent. The IMF and other institutions and the mighty power of the U.S.A are good enough to ensure that they collect their money. It is almost identical to the mafia's "loan-sharks." Their customers are lured to take loans of the mafia's dirty money and when it comes time to pay, the mighty force of the collectors would ensure the debt collection.

Every time a sudden excess liquidity was created by the global financial system the same cycle occurred. Within the past 25 years two such cycles occurred, the first was after the oil shock and the petrodollars that resulted. The Latin American countries were lured to "demand" the new money "supply" by the banks and were encouraged to borrow beyond their capabilities. The second such cycle was after the creation of the new money supply in the 1990's and this time it was the Asian countries that were lured to borrow the newly created money supply. The function of the Washington consensus institutions and the U.S power was in both cases, to ensure that the financiers will collect their money regardless of the consequences on the national sovereignty and social injustice that will result on the general population that had nothing to do with this money supply or demand, and which

had not benefited in the first place from this money game. The local members of the one percent class in those countries in collusion with the financiers are the players of this game and both will end up the winners. The misery and the austerity will only fall on the general 99% of the people who were and are victims of such money games.

Many people's first introduction to computers were via computer games. Atari was one, and then many followed as Pacman, Startreks etc... And the global money game would not have been as easily or as big as it is without computers. Actually, computers became the bread and butter of the financial business and computers are now programmed to automatically buy and sell without human interference. This is why one company spent \$35 million dollars to gain 2 seconds in its arbitraging stock futures. In one year alone, 1994, banks invested \$19 billion in computers and technology.

To the street-smart Wall Streeters, their basic tools were hunches, heard instincts, and connections to high places such as the Washington power structure. To them computers, mathematical models, physics and science belonged to Cape Canaveral. Science to Wall Street was like Greek to the Chinese. This is probably why computer-aided trading was termed as rocket science! A new breed of professionals started to arrive to Wall Street in the decade of the Nineties. Their mission was to mix science and technology with the money game. Amongst such new comers were Nobel Prize winner Robert H. Merton and Myron S. Scholes who co-invented with the late Fischer Black the optimum pricing model that under-pinned much of this new financial rocket science. They developed a sophisticated arbitrage model that was described as market-neutral: it makes money when the prices are going up, but, it also makes money when the prices are going down! They formed the Long-Term Capital Management L.P. in March 1994. John W. Meriwether, a big name in Wall Street, managed the fund. By the end of 1997 they tripled the company's capital! All major investment banks and houses envied the potential of this new science and started to spend big amounts of money on computers and technology. Highly-paid and highly-qualified people joined the money casino game. Amongst them were professors from reputed universities such as Stephen A. Ross who came from M.I.T. But suddenly, the unexpected happened. In August 1998 the suddenness of the Russian crisis, and the after shocks of the Asian crisis rocked the very basic assumptions of the computer models. Long-Term Capital Management lost in that one month 44% of its total portfolios' valuation, or nearly \$2 billion. Other companies were totally wiped out especially those that operated at higher risks. Solomon Smith Barney holdings lost \$300 million and so on. The whole financial system simply stopped to operate as Wall Street wished it or planned it to operate. The rocket science assisted so much in the extraction of the global economy that the fundamentals of the real productive economy were changed beyond the assumptions that were incorporated in the computers programs! And as computers have no "sentiment", they did not "feel" the change. What were good computer programs became out-dated because the computers and the speculative global money casino flattened and extracted so many economies beyond recognition! In other words, the world in August 1998 was so different from the world in which the speculative computer models were designed for and rocket science has a lot to do with this change. By September, Long-Term Capital, nearly lost all its \$4.8 billion capital. A fund with partners including two Nobel Laureates and a former vice-chairman of the Federal Reserve do not go without friends. The Federal Reserve Bank of New York persuaded 15 international commercial banks to invest between \$3.50 to \$3.75 billion trying to save Long-Term. Under the title "Bailing Out the Rich," USA Today editorial (12A-September 25,1998), commented: "Look who's getting bailed out now?" Not a savings and loan, as in 1987....Not an emerging market nation like Brazil or Russia, as in the current global meltdown....In normal times, federal pressure to save a hedge fund that requires the smallest investor to put up \$10 million for three years would be unthinkable. Such high-risk enterprises produce outsized returns for the rich, so if the funds suffer big losses - as 77% did in August - those wealthy few who can afford them need neither pity or aid." But the fact is they always do receive aid. The bail out was justified as necessary to prevent further global financial deterioration. Yet, many like us including former "Federal Reserve Board Chairman, Paul Volcker, questioned the role the Fed played in coordinating a bailout package for a private investment fund." (USA Today, September 25,1998,p.1B).

At a time the Washington Wall Street consensus preaches transparency to Japan, Asia and the world, hedge funds are very secretive. Long-Term was borrowing about 25 dollars for each one dollar of its own and was said to have a trillion dollars worth of various contracts. All without being regulated and all in secret. What it was doing was placing bets that tiny deviations in the traditional

relationships as modeled in its computers would eventually return to normal. Since such margins are very small, the fund made its money on volume. "As a Solomon Brothers Veteran described it," wrote The New York Times (p.28, Sep. 27 1998), "the fund was like a roulette player betting on red and doubling up its bets each time the wheel stopped on black. (A gambler with \$1,000 will probably lose), he said. (A gambler with \$1 billion will wind up owning the casino, because it is a mathematical certainty that red will come up eventually - but you have to have enough chips to stay at the table until that happens)...Last week's rescue, in effect, keeps Long-Term capital at the table, buying time in which its massive gamble might yet pay off". The Japanese and Asians whom Washington and the IMF always preached to let weak financial institutions fail thought it not to be amusing for the Federal Reserve Bank to assist in a bailout to a private hedge fund at the time they are hammered to let their public banking institutions go bankrupt!

Under the title "Hedge-Fund Bailout Allows Japanese to Lecture U.S.," the Wall Street Journal, Sept. 28, 1998 issue wrote, "To bankers in Japan, there is more than a little irony in all this. U.S. authorities, who lectured the Japanese repeatedly on the need to improve disclosure and impose tougher controls at their financial institutions, seemingly knew nothing of how exposed Long-Term Capital was to various markets until the fund risked failure....Now, some people in Japan wonder if the U.S. should worry more about what happens on its own turf...." Business Week, October 12, 1998 was more blunt. Its editorial said, "The Fed-brokered bailout of LTCM shows the sheer hypocrisy of America lecturing Asia about crony capitalism while apparently practicing it at home." Only after his over a billion dollars loss in Russia did George Soros come to the conclusion that: "International capital movements need to be supervised and the allocation of credit regulated." When the Malaysian prime minister came to this same conclusion a month or so earlier he was labeled as a free-trade obstructionist.

The new global infofinancial economy extracts wealth from the productive economy and the productive people at large, and concentrates the wealth in the hands of the very few.

Some of the new financial products that were created recently by the new global financial institutions include:

- Derivatives contracts: It is betting (i.e. gambling) on movement of entire stock market indices, interest rates, currency prices etc.... It is estimated that by the end of the 1990's, outstanding derivatives contracts will be around \$20 trillion, which is almost the same value of the total stock of the world's productive fixed capital.
- Arbitrage: The arbitrageur makes a purchase of one commodity in one market and simultaneously sell it in another market. The basic comparative advantage one firm has on the other is -- who gets the information first acts faster! We already explained who has the information first!
- Risk Insurance: against future price changes
- Speculation: on price changes to commodities & currencies, stocks and other instruments. Those who can read the "smiles" and "frowns" of the decision makers are those who gave them their jobs, and speculation mostly depends on inside information even if it is not admitted.

*BusinessWeek* wrote in Dec 22, 1994, "Amid ever-more sophisticated instruments, regulators have shown little understanding of the new linkages springing among instruments, markets and economics. Some \$20 trillion worth of swaps, options, caps, collars, and other 'derivative' products now circulate around the world, giving investors and issuers the ability to do every thing from hedging foreign-exchange exposures to speculating on minute spreads among global interest rates. These new financial instruments are becoming so sophisticated that Bankers Trust New York Corp Chairman Charles S. Sanford Jr. sees markets eventually driven by 'particle finance,' with money engineers breaking down any given deal into minute components that may be hedged, sold, or kept in portfolios for the long haul. In coming years, investors will even be trading instruments based on acts of God, predicts financier Richard Sandor, CEO of New York - based Centre Trading Partners and a pioneer in interest - rate and currency futures and options. The Chicago Board of Trade already lists catastrophe reinsurance futures, which permits insurance companies to hedge against future earthquakes, hurricanes, and other disasters by purchasing contracts based on the industries' history of claims and premiums. The proliferation of such high-tech instruments could, over-time, even blur the definition of what money constitutes."

All these instruments are speculative, manipulative, and unproductive to the real economy. To the contrary it is a parasitic economy that acts as a catalyst in the distraction of the social well-being of other people's economies. The prime minister of Malaysia considered the speculators as criminals. On many instances, global financiers create cycles so they can shave them off to their advantage. They create economic bubbles so they can burst them to their advantage at their own timing. The associated miseries of human societies that may suffer as a result never entertain their minds. They are motivated only to make money. And they resent governments that may want to regulate their excesses as obstructionists to the free trade.

Information, inside information primary or via using the information age new tools secondarily, is the center of the global financial system. Really, the trading in this extractive economy is made on decisions based on theoretical mathematical equations that are structured on the basis of probability analysis and other data, without any regard to society, nationality, social impact, or even company name or business. It is computers playing against computers just like in a casino, and no positive contribution is made to people or economies.

The same article, "Borderless Finance," (*BusinessWeek*, December 12,1994) said, "It will be a scary new world, one where the sheer might of traders and fund managers will eclipse that of central bankers and politicians.... As traders pump up their supercomputers and merge physics, math and money to create ever-more-complex instruments and techniques, capital markets will turn more cruelly efficient and risky than ever. Financial volatility will become a fact of life... But the cost of facing up to a force collectively worth trillions of dollars is becoming nearly unbearable. Refusing to play ball with the traders could subject an economy to staggering interest rates or a cessation of equity investment in privatizations needed to boost productivity and create jobs... 'You can opt out of the system,' warns money manager George Soros, 'but if you do, that destroys prosperity'... The global financiers created a global financial system in which they are the only winners, and everybody else is 'damned if they do and damned if they don't.'"

The Federal Reserve System was created in 1913 in a way where the Washington Wall Street cronyism was forged and the Fed was insulated from public debate and accountability. Within that period, the OPC power structure along with the newly emerging technocrat class forged and institutionalized a relationship by which important social, political, and financial issues were, and still are, created behind closed doors away from public debate. Technocracy substituted democracy; and democracy was transformed to a mechanical process that through the power of media, money, and marketing, the public can be sold the OPC products that may be packaged professionally. The June 1998 Tobacco Bill and tobacco companies' blitz against it is a good recent example, where the tobacco companies' interest was packaged as if it were a tax-and-spend government issue!

This Fed that was created to serve the U.S. domestic economy has been now transferred into a de facto Central Bank of the World. Its role was recently strengthened by the absence of the Bank of Japan and the Bundesbank from taking a role in world financial affairs. The bank of Japan was busy with Japan and its wounds. The Bundesbank was busy with the Euro and new Europe. The Fed that has no legal mandate beyond the U.S. borders is now so powerful that its decisions to-day have immediate and great impact on the economies of other countries of the world. If for instance, the Fed decided to-day (at the time of this writing) to raise interest rates now to control U.S. domestic growth, a possibility, this will drive the yen down, causing further devaluation to other Asian currencies, deepening of recession in Russia, most of Asia and even most of South America. Obviously, the Fed alone is practically dictating the global monetary policy. Such decisions affect the very well beings of other nations - including stock prices, currencies valuations, and practically all aspects of other nations, economies. These countries and nations are subjected to decisions taken outside their borders, not accountable to them in any way, having no legal mandate to mingle into their internal affairs and economies, and in a way that defies the ABC of management. The Feds were created to look after the U.S. domestic economy, so it is obvious that the interest of that economy should be first, last and always the guide for its decisions. The interests of other national economies are therefore incidental. A conflict of interest thus arises and he who has the power rules.... A structurally-flawed global financial system had emerged in which one economy is protected, and other economies of the world will take the cycles that may otherwise have occurred in the U.S. domestic economy. That is at least one reason for the strengths of the new economy of the U.S.A.

Robert Kuttner commented in BusinessWeek, July 27,1998: "With the collapse of Bretton Woods, a new generation of free market fundamentals insisted that money was just another commodity with prices set by markets like prices of ordinary goods. Exchange rates should float, all capital markets should be totally permeable. Recent events, however, have proven this view tragically wrong."

"Poor Mexico. So far from God, so close to the United States."

Mexican President Porfirio Diaz

"If Mexico had simply defaulted and refused to adopt the austerity package forced upon them by the IMF and the United States, it is clear that they would have suffered a reduction in their real income - they would have been unable to finance an import deficit and imports could have dropped, cutting real incomes. But that also

happened under the IMF-U.S. conditions, however, they would not have been enforced to endure a harsh domestic recession on top of the necessary cut in imports.”

“In reality the \$52 billion loan package protected the American mutual funds more than it did Mexico, but the Mexicans were left to repay it alone.”

Lester C. Thurow  
*The Future of Capitalism*, pp.227,228

## *Chapter 12* **MEXICO: A Case Study Of Extractive Global Financial Capitalism**

What the United States was unable to achieve by diplomacy or by force, it achieved by hot money. The American oil companies in Mexico were nationalized in 1938 and the Mexican oil company PEMEX became the owner and operator of the oil and gas industry in Mexico ever since. In 1995, the IMF - US bailout package imposed a condition: All the revenues from oil must be pledged and be deposited as a collateral at the Federal Reserve Bank of New York. The American Treasury Department officials did not think that the signature of the Mexican finance minister was enough. They also needed the signature of Pemex as well. Also, part of the “remedies” of the IMF - U.S aid package was the sales of Mexican public sector facilities. Among such facilities were gas and petrochemical plants. A few months after, the proceeds of the oil sales of Iraq had to be deposited also at New York banks and to be used for payments to Iraqi purchases of food and medicine under strict conditions. Iraq also was the first country in the Middle East to nationalize western oil companies.

Poor Mexico did everything in the book to comply with the principles of free-market economy. American-educated Mexicans were put in charge of the economy, and they were there to please. They liberalized the economy, underwent mass privatization, deregulated the financial markets, removed trade barriers, decreased state subsidies and controls on trade and commerce, joined GATT in 1989 and became a member of NAFTA in 1993. For 13 years the standard of living of the average Mexican was reduced in the process of implementing “free-market” policies and reforms. All the conditions demanded by free-market advocates were now in place and the media of the financiers commended Mexico and its economy. Mexico was declared as a good example of a “reformed nation.” It even had a new president educated at the same university to which both Bush and Clinton went: Yale.

As the interest rates in the United States were low and in Mexico higher, this provided an opportunity for American Fund managers for their arbitrage business, where by borrowing in the U.S and “investing” in Mexico they can pocket the difference. What is important now was that Mexico

was “reformed”, meaning they can exit with their money any time they please. Money started to flow to Mexico, and the American financiers and fund managers created the bubble. Stock prices increased 4 times within 2 to 3 years. Offshore investors held about 50% of the Mexican stock market and about 25% of the government debt until a short while before they decided to leave Mexico and ruin its economy. The global financiers created the bubble and now they were bursting it. And the reason was not Mexico. Interest rates started to pick up in the United States, and opportunities elsewhere became more tempting. From all the investments they poured to Mexico, only 25% was invested in the productive economy, and 75% of the money went to financial markets and speculations. Even the 25% invested in the productive economy was mostly confined to multinational companies which were involved in intracompany trade isolated from the total Mexican economy.

When the interest rate was raised in the United States starting from the early 1994, Mexico had reasonable foreign reserves: \$25 billion. But the continuous exodus of the hot money of the financiers drained the foreign reserves until by the end of 1994 little reserves were left and the Mexican national currency lost about 50% of its value in a matter of few weeks. An economic meltdown was at hand.

Even before the crisis, Mexico had two economies, a real productive economy and an extractive financial economy. The real economy was allowed to suffer for so long to please the global financiers. It was deregulated and opened to please them. This caused the garment industries to lose to Asian competitors, paper and candy industries to lose to the American competitors and so on, as they were not prepared for competition before borders were opened. With the crisis peaking by the end of 1994, Mexico could have just defaulted and many including well-known American economists thought that was a viable option, or maybe a better one than the option adopted: seeking assistance from the United States and the IMF.

The global financiers were the actual benefactors of any bailout because they were allowed to collect their money from Mexico. They were pushing their “men” in Washington and elsewhere to come up with a bailout plan and quickly. Also, a world catastrophe was feared with grave consequences on the financial markets and global financiers. Latin American markets fell by 38% in 2 months. Asian markets fell between 10 to 21%. And two years after NAFTA the Mexican economy contracted by 7%, domestic commerce reached a standstill, and one million jobs were destroyed in a few months only after the economic meltdown which resulted from the flight of the global hot money. Eight thousand firms failed, peasants marched in protest and the troops and police fired to kill.

It was judged that about \$50 billions were needed to stop the free fall of the peso and restore economic order. Obviously the natural step to sell a U.S bailout package was to go through the Congress. Wall Streeter Robert Rubin who came from Goldman, and Sacks & Co. to his job as secretary of Treasury joined Greenspan and Summers to devise a plan and lobbied the plan with Congress. Wall Street was pushing hard, but Congress was in no hurry. Congressmen wanted to tie any aid with Mexican immigration. Besides, their voters were not sold on bailouts and committing taxpayers money to such schemes. Richard A. Gephardt called Clinton and told him his \$40 billion plan in loan guarantees can be considered dead and had no chance to pass Congress. An emergency plan was worked out, this time without congress. The details of the plan was worked out on the night of January 31,1995 and was ready by first light February 1,1995. On February 1,1995, Clinton called the congressional leaders to the White House and told them that he is going to sign an executive order for the new bailout plan and he expected their support. Since this plan was prepared and promoted to assist Wall Streeters, congressional leaders knew better than to oppose such a plan. They pledged support and had to leave the White House from the back door to evade reporters ! Those congressmen approved behind closed doors what they could not approve in the open halls of the congress. And Clinton used executive instead of legislative powers to bailout the American financiers, not Mexico. Clinton justification for adopting the plan and signing the order was that the “risks of inaction are greater than the risks of action. This is the right thing to do.” The bailout package was made of:

- \$20 billion - the Treasury’s Exchange Stabilization Fund was to be used. Four days earlier, Greenspan thought that Treasury had no right to use this fund which was meant to be used to defend the dollar. Now, he and everybody else thought otherwise;
- \$4.5 billion of short-term credit to be provided by the Federal Reserve;
- \$17.8 billion by the IMF;
- \$10.0 billion short-term credit from other industrial nations;

- \$1.0 billion from Canada; and
- \$1.0 billion from Latin America.

What were the conditions attached to this aid package:

- Mexico must surrender its policies regarding money supply, fiscal spending, future foreign borrowing and domestic credit to the IMF-U.S., conditions written as part of the bailout plan.
- Mexico must sell its best assets such as ports, railroads, petrochemicals, telecommunications ....etc. to raise \$12 billion. Sales to start immediately regardless of the fact that prices became depressed resulting from the crisis.
- Mexico must open its bank ownership to foreigners.
- Mexico must pledge to deposit all revenues from its oil at the Federal Reserve Bank of New York.

Mexican president Zedillo thought that these terms were extremely harsh, that he may be accused of surrendering Mexican sovereignty and that he is turning Mexico to be “a colony of the United States.” He was told that these were the conditions, period. Mexico had to sign the bailout agreement. The after-effects of this agreement in 1995 were:

- The economy was contracted by 7%
- VAT was increased to 15%
- Real income was reduced by 33%. Inflation for the year was 40% and salary increases were capped at 7%
- Interest rates were up from 15% to 130% in a few months
- About 30% of all loans in the country became non-performing
- Eight of the countries 18 major banks failed and the rest had to be bailed out by the government.
- Some leading industrial groups went bankrupt. A total of more than 8000 companies failed.
- Fuel prices were increased by 48.5%.
- Electricity rates were increased by 32%.
- The country that was made of small farmers and was an exporter of food stuff when farmers were subsidized now became an importer of food dependent on its northern neighbor - the United States.
- And one farmer’s family who died due to the stress of having his land possessed by a bank as he failed to pay his loan - brought his body to the bank in protest and said they can have his body as a payment!
- Crime rate increased substantially.
- Bancomer bank would have needed a parking lot for 75000 cars for the non- performing car loans if they were repossessed.
- And 10% of Mexico’s GDP was paid as interest to the loans.

The total productive economy suffered except for exports and a \$15 billion trade surplus with the United States was achieved, thus ensuring loans repayment to the very same people who caused the economic meltdown in the first place.

Carlos Heredia, an economist, (as quoted from “One World Ready Or Not,” p.272) had probably explained the situation very well. He thought that exports did not really help as was claimed: “Our total exports went up by 23 percent in 1995, while Mexico’s total output went down by 7 percent. We’re actually under-going a massive dismantling of Mexico’s productive capacity. Let me explain: if the economy concentrates on export industries, that means only three hundred companies, a good chunk of them are subsidiaries of the United States multinationals. So then what you have is intra-firm trade that’s not really integrated with the domestic economy. It’s General Motors exporting auto parts from its Mexico subsidiary to Ohio or Michigan. Since NAFTA the production of exports that is intrafirm trade has grown from 40 percent to 55 percent. At the same time, the rest of Mexican manufacturing that is not geared to exporting cannot cope with the opening of the border. Even after devaluation reduced wages, they cannot survive the competition on the high interest rates. Mexico did enhance its productive capacity, but this was not linked to the domestic economic structure because most of it went into the maquiladoras or to buy assets the state was selling off. And only one-fourth of the capital inflows actually went to direct investments in plants -- while three-fourths went into financial markets and speculation. The IMF and the World Bank don’t explicitly say you have to follow a low - wage policy, but the overall policy framework leads to a strategy of deliberately depressing wages. The model is geared to exports and puts pressure on wages by telling countries: we

won't invest in your country's export industries if you don't give us a competitive advantage - low wages. Since the rest of the economy always lags behind the export sector, if you hold down wages to encourage investment in exports, you hold down the rest of the economy too. Every one else subsidized the export sector. The greatest paradox is that since 1982 we've followed free - market policies that failed and we had to be bailed out twice, not by the Mexican government but by a foreign government."

The tyranny and unfairness of the new global financial economic order that is centered around the Washington consensus and the Washington Wall Street cronyism was first clearly exemplified in the case of Mexico. It was later on dramatized by the Asian economic meltdown that is now spreading to most of the emerging economies of the world.

"What a year! In 1997, the U.S economy reveled in strong 3.7% growth, mild 2% inflation, 4.6% unemployment, low interest rates, fat profits, and a seemingly unstoppable stock market. Such trends are the stuff that economic dreams are made of..."

"What a year. In 1997, the U.S economy reveled in strong 3.7% growth, mild 2% inflation, 4.6% unemployment, low interest rates, fat profits, and a seemingly unstoppable stock market. Such trends are the stuff that economic dreams are made of".....

"Japan falls close to a recession and rushes forward with a massive public bailout of its debt-besotted banks. The entire South Korean economy seems on the verge of receivership. China's growth is slowing down and it's choking on excess of inventories .....speculators are shorting the Hong Kong dollar and roiling the Hang Sang Index. In Indonesia, Malaysia and Thailand, currency and equity markets continue to tumble by the day. And no body knows when the parachutes will open ...

"The global slowdown, precipitated by the financial crisis in Asia, may be just what the doctor ordered as far as inflation hawks at the Federal Reserve are concerned".

*BusinessWeek*, December 29,1997, pp.38,40,46

## *Chapter 13*

### **THE ASSAULT ON ASIAN TIGER Global Hot Money + Financiers Cold Blood = Global National Disasters**

If we acknowledge that the global economy doctor nowadays is the United States then the above last quotation will read: "The global slowdown, precipitated by the financial crises in Asia, may be just what the United States ordered...." At least that was the thinking of the Washington policy makers when the Southeast Asian crisis first began.

After the spectacular drop of global stock markets, on October 27 1997 -- it was only the United States that saw good things in these economic meltdowns. U.S Federal Reserve chairman reported to Congress that these crisis may prove a "Salutary event!" It will help cool the markets so that inflation remains under control. It seemed at the beginning that this crisis may be over in few months, but the law of unanticipated consequences got into action and the aftershocks of these crises are escalating beyond being a "salutary event" as Mr. Greenspan seemed to have realized a year later.

Salutary events on global scale don't just happen. The events of October 27, 1997 scared everybody except the United States. It seemed it knew or expected something others did not. On that date Dow Jones of Wall Street came down 554 points in one day, the biggest point drop in history. Hong Kong stock market came down 34.5%, Britain market suffered 9.2% loss, Japan 21.3%, Australia 12.1%, Mexico 10.7%, Brazil 27.9%. And as Greenspan knew, the Dow Jones virtually recovered to where it was, but everybody else remained struggling, specially the Asian markets.

"The drop in market value and the amount of wealth destruction for the last six months only exceeded \$200 billion for Hong Kong, Korea, Indonesia, and Thailand. The Asian countries of Korea, Indonesia, Thailand, Malaysia, & Philippines had debts that accounted to about \$155 billion, \$130 billion, \$110 billion, \$35 billion and \$60 billion respectively." (BW, January 26, 1998)

Liquidity problems in Southeast Asia became so acute that corporations couldn't pay their Korean suppliers. Japan and Hong Kong were both sucked into this crisis. Japanese banks started to collapse as a result of the drop in Nikkei which was in some part a result of the Asian crises. Hong Kong leading investment bank "Peregrine Investment Holdings" also collapsed due to accumulation of unpaid debt. Regional trade suffered. One can reasonably assume that the attack on east Asia was part of the attack on the Japanese brand of capitalism, which also is called by the American OPC as the Japanese consensus. It was Japanese banks that had the bigger share of the loans in the region. Japan was the biggest lender and therefore the worst affected. U.S banks were the least affected as their loans were only 20% of the Japanese banks. The total German, French and other Europeans' banks combined amounted slightly less than the Japanese banks.

One of the main reasons behind the attack on the Japanese brand of capitalism was its "controls" on the flow of capital and acceptability of foreign investment in its industries. After the collapse of communism, and also after the boom of financial resources of the global financiers, such restrictions became unacceptable to them, and "opening up" and dismantling their capital and currency controls became a constant demand by the U.S and IMF. Under such immense pressure the

Asian countries caved in even before the proper institutions were created to exercise the needed controls under the new system. Many governments didn't even know exactly how much loans the corporations were committed to pay or when such payments were due. The president of the Korean Institute of Finance Park Yong Chul said "The west pushed us to open our markets, but what are we getting in return? Through globalization we have created a monster." (BW, January 26, 1998,p.16). This monster caused the Indonesian currency, the Rupiah, to collapse to 50% of its value in three days of January 1998. It was admitted that "the medicine Asia is being told to swallow may make it sicker" according to BW editorial (BW editorial, January 26, 1998, p.20). "The IMF demands that Asia cut growth and consumption. But that will lead to more over-capacity and exports not less. It will hurt consumers, make for lower wages and penalize the poor more than the rich." Apparently Indonesia's president Suharto had a similar opinion of the bad medicine the IMF was prescribing to his country. But again he had no choice to prevent what he thought as bad medicine. Suharto, came to power in the 1960's with the CIA help in an armed struggle in which between one-half to one million Indonesians were massacred! Some were claimed to be communists and mostly "positive neutralists" followers of deposed president Sukarno who did not want to side with either party of the cold war and who thought that American and Western brand of democracy was inferior to his guided democracy which takes into account the national culture within the decision-making process. Now Suharto, who remained in power more than 30 years, received a high-level delegation of Senior American officials including Secretary of Defense Cohen. They told him that stability of Indonesia was vital to the United States national security and Clinton called him to advise him "that stability was dependent on Suharto's following the IMF's harsh prescription as if they had come from the hand of God." (Newsweek February 2,1998)

The Prime Minister of Malaysia Mahathir Mohamed oversaw the development of his country based on his much-admired Japanese brand of capitalism. He thought, like everybody else in East Asia, that the Japanese brand of capitalism was more suited to their countries not only because they thought the west was arrogant and decaying, but also because the Japanese brand of capitalism affords better social justice, less gap between the poor and the rich, and above all, suits their culture better. Malaysia, adopted the so called "LOOK EAST" policy and all these countries prospered when they were left alone; that is before they were pressured to deregulate their financial & currency controls and open their markets. Trouble started then. But the allegations that are now attributed to the East Asia problems were all there for the past decades as these countries were attaining very high growth rates & improving the standard of living of their populations. It is now claimed that the cause of their problems was "crony capitalism". But was it otherwise any time in the past few decades? The global financiers decided that " ....Asian governments must dismantle the corrupt nexus among bureaucracies, banks, and big business." But this "evil" triangle" is what capitalism is all about. It is big business, banks and government bureaucracy in the United States that run American capitalism. Japanese and other Asian countries were infected with mafia of different brand names, but mafia originated in the United States and it was its biggest business. As we have discussed in other chapters, one doesn't know where business starts and mafia ends in the western model of capitalism. It seems that corruption and capitalism of all brands go hand in hand, simply because when ethics are divorced from economics, anything goes as long as one is willing to pay the price!

As we discussed in another chapter how Japan was attacked as soon as the cold war was ending. The attack on the other Asian countries will weaken Japan somehow, and will weaken these Asian countries to the extent that the "world economic doctor" sees fit. It is true that strong growth in other countries will help sustain growth in the United States. But thanks to a global economy, if the global economy must be "cooled" due to high growth in the United States, it may be cooled by dumping the cycles of recessions or even depressions on other nations?! That can give a steady sustained growth in one part of the globe (i.e. the United States) and fluctuating business cycles in other parts. The western countries never hid their contempt and sometimes racist views when it comes to others, especially those of the Asian continent. It was more admiration than respect when they looked at the Japanese and other "miracles." After all, Germans were not detained in camps in the Second WW, but Japanese were!

It was a cold war necessity that required Japan's re-industrialization. Now, a well-to- do Japan or even East Asia may be OK, (as long as it serves the OPC agenda), but certainly not to compete with American brand of capitalism quantitatively or qualitatively. The growth of American capitalism

is dependent on other nations in this global economy. This was expressed in no uncertain terms at a speech delivered at Georgetown University by secretary of Treasury Rubin in which he bluntly said that the financial turmoil of Asia (is still a threat) to world economies.

Probably the most clear causes and intentions of and for the Asian crisis was expressed in a Business Week editorial of Rudi Dornbusch (BW issue of Dec 8 1997). He acknowledged at the end of his article on Korea's crisis that the global financial investors, due to high liquidity "encouraged indiscriminate lending in Asia. Just about any country, bank or company could get loans at a slight premium over what the U.S government pays. Reality was set aside, and testing the credit worthiness of loan customers was abandoned." Why then such recklessness of the global investors must be guaranteed by IMF bailout plans? Why should they be assured to collect their loans even though admittedly they did not do their homework? If lending was the core of their business, then why shouldn't the financial investors take responsibility for their reckless decisions? Is it because they were certain that the IMF is working for them and governments will be in no position to detour around IMF U.S. conditions and prescriptions?! The same editorial "END GAME: ITS TIME FOR A MAJOR BREAK. STATISM MUST GO AND FOREIGN INVESTORS MUST BE ALLOWED TO CLEAN UP THE MESS THROUGH BANKING & CORPORATE RESTRUCTURING" was proposing the global investors who played a major part in the creation of the crises, be the ones to take charge to resolve it. If it takes two to tango, the lending dance was led by the lenders and instead of them taking the proportionate responsibilities for their wrong business decision; firstly, they must be guaranteed their money through IMF packages; secondly, they should be "rewarded" by stepping in to take over the pieces of the bankrupt corporations that will result from the IMF known prescriptions. Thirdly, the people must undergo austerity measures, unemployment and high interest rates so that global investors are paid, and so they can reinvest their repayments in possessing the jewels industries at dirt price conditions. But ....fourthly statism, i.e. Japanese brand of capitalism must go... It is said loud and clear. Korea and other Asian countries are advised to open up their economy and sell their banks and companies for the global financiers who shared them great responsibility in the creation of the Asian countries' problems.

This did not seem to be just a commentary in a business news magazine as the same tone and conditions were voiced by the United States trade representative at the Vancouver Asia-Pacific Economic Cooperation Summit (APEC) on November 22-25, 1997. The first demand by the United States was a commitment from the summit attendance to allow some control by foreigners over the participant nations financial services sectors and that global investors be allowed to operate at various markets just on the same basis as the national ones, thus allowing the global investors total access in these markets that were not fully opened so far!

This request is demanding more of the problems that triggered the latest Asian financial turmoil, which the president of the Korean Institute of Finance called a globalization "monster." Now, a bigger monster is being requested.

"Full compliance" was a phrase the world has learned from the United States in the Iraqi crisis. Now full compliance with the U.S request in APEC must be implemented by the Asian nations. Clinton phoned the Indonesian president that he must consider IMF requests as if they came from the hand of God. And Korean president Sam announced within the second week of December 1997 that he was sorry he had to go to the IMF for a \$57 billion bailout. He further declared that Korea can no longer compete in international market with "its existing system". The governor of the Korean Central Bank offered his resignation. The world's 11th largest economy became now in receivership and Korea surrendered its "system" to the global financiers and the IMF ! When a company such as Moody's lowered the credit rating of a nation such as Korea the Korean national currency tumbled 10% in one day. Actually, on four consecutive days the WON sank by its 10% daily limit. The amazing fact was that this decline occurred in 4 minutes only, and simultaneously the Nikkei fell by 2.6%, Hong Kong market fell by 5.46%, Taiwan by 2.74% and Malaysia by 7.41%! The foreigners, according to the IMF package can now own up to 50% of Korean companies instead of the 26% maximum previously. Now, the global investors can re-invest their money and take over the Korean economy at "steal" prices! Korea surrendered its sovereignty. He who gives - takes. Korea's growth was aided by tax-payers of the United States during the cold war, and it is now taken by its one percent class through its global financial instrument, the IMF.

Prior to this assault on Korea, the homework was done between the OPC & their benefactors in Korea. They had to show that the system which was created under American patronage was bad and corrupt. Some theatrical moves were , probably coming from the scenario writers of Hollywood. A proof of collusion between the Chaebol & the Korean government and bureaucracy was needed. A scandal was created in which major Korean conglomerates (Chaebols) executives were accused of payoffs to two Korean presidents. Koreans must be prepared to what was coming - the demand to cancel the existing co-operation among the government, big business and administration. This co-operation in reality is very close to the existing American decision making process in which an Iron Triangle (congress, lobby, administration) takes all major decisions. Except it is given the local Korean flavor. This system was responsible to allow growth of Korea from a poor third world country with an average income of \$80/year in 1960 to the 11th largest economy in the world with average annual income of people above \$10,000 in 1997. This system allowed an average growth rate of 8.2% annually for 30 years. Now this system was under attack. The payoffs and political excesses are nothing different than in most other countries. Actually, the payoffs of the Chaebols to government is the Korean equivalent of the American political contributions. They are both designed to buy "political influence" by money. For this reason a Samsung spokesman said "the practice of making donations was part of a political climate that was customary." This was how the Korean "miracle" was created under American blessings during the cold war. But the post-cold war order now eyes the private-state cooperation in Asia with contempt and fear. Breaking up the state-business ties and the system became a condition of the new world order. Two former presidents were convicted, jailed and later released after the purpose of the "play" was completed and realized.

The pressure on Korea started to intensify after the collapse of communism and the U.S did not see Korea for what it was in the cold war. It was the global financiers who recklessly gave loans to Korean Chaebols and banks. It was because the global investors had excess liquidity that needed to be marketed and loaned. Thus, the loans to Korea intensified. Korea's foreign debt grew from \$40 billion in 1993 to \$140 billion at the end of 1996. A situation was created that the Chaebols needed double digit growth to pay for their loans, at a time when a 20% annual increase by volume was not producing more than 8% revenue - below what is needed to pay for the loans. In 1995 alone 13992 Korean companies went bankrupt. The protection to Korean industries was decreased. The number of banned imports was decreased from 258 in 1993 to 152 in September 1996 and the trend continues. New legislations were made allowing layoffs of workers, a violation of the virtual social contract of life-long employment. Key units of various big Chaebols went bankrupt. The banking system was troubled in mid-1997 by \$11 billion of questionable real estate loans and bad Chaebol loans. Textile giant Danong defaulted. Kia motors almost went under except for its dismantling by creditors that gave it life again. Korea's 2nd largest bank was carrying \$3.2 billion of bad loans and posted \$417 million loss in the first half of 1997. The Ministry of Finance and Economy listed 170 major companies with troubling debt equity ratio of more than 500%. Five major conglomerates went either bankrupt or were forced to restructure.

Korea was prepared by the global investors to get to the point it did by the end of 1997. Now, the IMF will help but with conditions. Pay back the global investors their money to the last dollar, and change the "system." Korea surrendered. The Korean president announced : we have to change our system. To the global investors, it was a win-win situation. To Korea it was a disaster.

What did the IMF bring to Korea after Korea surrendered to IMF terms? By the end of April 1998 Korea's joblessness is at a 12 years high and the real layoffs of the chaebols that are inherent to IMF bailouts did not even start yet. Korean composite fell by 27.3% between the first week of February 1998 and end of April 1998.

BuisnessWeek May 18,1998 reported under: PSST! WANT A NICE PIECE OF A CHAEBOL?

"....They spent billions on new plants to crank out semiconductors, VCRS, and cars. Then the crisis hit..... Korean companies burdened with \$600 billion in debt, got slammed as interest rates jumped to 20%, and the value of the currency tumbled ..... One factor that could block foreign sales of the chaebols is low success rate with overseas ventures. As a result, they can't sell the plants for any where near what they borrowed to build them.... The worst-off chaebols may have to settle for whatever they can get. Ssang Yong, pushed close to insolvency at the end of last year, sold California subsidiary Riverside Cement Co. to Texas Industries Inc. for \$120 million and got rid of two Marriott Residence Inns in Sacramento and San Diego for \$30.5 million. Ssang Yong also has unloaded its

Korean paper operation to Proctor & Gamble Co. for \$85 million. Such divestitures don't bode well for the chaebol's goal of becoming true global companies. But glorious expansion is not the plan now. Survival is."

We started with the Korean example as it was the 11th largest economy and it was capitulated. The smaller economy of Thailand was first hit and had to take the IMF medicine few months earlier. On July 2, 1997 Thailand national currency was under attack by the well-known international speculators and the country lost all its available defenses against that savage attack. The BAHT had fallen by 25% in relation to the dollar. The country had to go to the IMF which imposed Mexico - like conditions. Stock prices plummeted, finance companies failed, public works and construction were stopped and the standard of living for the majority took a sharp drop. National companies, specially those selling mostly to the local market suffered the most and many of them went bankrupt. But not of course, the multinationals operating in Thailand. To them this national disaster was a gift from God and the IMF.

Companies such as IBM anticipated the problem seven months earlier and built a \$300 million plant in Thailand to take advantage of it. Now IBM pays less (in dollar terms) to the local workers, and its sales remain in dollar, thus the revenue will increase. The minimum wages became around \$4/day. The bankrupt national companies released their skilled workers that were immediately taken by the multinationals. Thailand had to change governments, plan a shutdown, merge or fix 58 finance companies to qualify for a higher bailout now estimated at \$22 billion.

Within the first eight months of 1997 the Manila, Bangkok and Kuala Lumpur stock markets crashed and their losses averaged about 40% by then. When Malaysian Prime Minister (recognized as the father of the Malaysian Economic Miracle) took some action to restrict the manipulative speculators easy exit of their hot money, his move was attacked as a misguided action against free trade. He was advised by the speculators and their mouthpiece -the IMF- that Malaysia's problems can be solved by letting the market rule, which will cause the needed shake outs and bankruptcies in the Malaysian economy. IMF and the speculators advised the prime minister that his socially-oriented projects can wait - such as the \$5.3 billion Bakun dam. He blasted the IMF and called the speculators as "international criminals." Mr. George Soros thought uncomplying Mahathir as a menace to his country who did not learn the new world order game of letting the "market rule" .... and who is the market anyhow? George Soros may be! The Malaysian prime minister told the APEC Summit in November 1997 that free-market advocates effectively ask bailout recipients to "surrender [their] independence" while they ignore the fact that "market forces are so prone to abuses as command economies."

The Malaysian prime minister expressed his views how he perceives the Southeast Asian crisis in an interview with BW, May4,1998:

Q: What are the lessons of the Asian financial crisis?

A: That we are not invulnerable, that our currency is no longer determined by our banks, that others can devalue our currency at will.

Q: You remain critical of how exchange rates are determined by market forces?.

A: Market forces are motivated not by the desire to discipline governments but to make money. It's not in their interest to stabilize currencies.

Q: In a recent speech, you still imply that fund managers are responsible for the collapse of the ringgit.

A: Well, that's what I believe. I may be wrong, but since they refuse to expose how they determine a currency's value, I must assume what I said was right.

Q: But the argument is that after some short-term pain; in the long run, you come out more competitive.

A: I don't buy that idea. After you have killed a whole lot of people, killed a lot of companies, decimated all banks, reduced confidence in the whole system, then you say: "Now, we are strong again?". No, it does not happen that way. It took us 40 years to reach where we were [before the crisis]. Today, we [have been set] back by more than 25 years. When you devalue a currency and you short-sell, you make a lot of money. Everybody wants money. And here is a cheap way to make money.

Q: What about the IMF study that says domestic investors are responsible for the crisis?

A: I would like to see on what basis the IMF concludes that Malaysians devalued their own currency and caused unhappiness for themselves.

Q: Have you seen the IMF study?

A: I have not. I have had communication with [IMF director] Michel Camdessus, who explained to me that the hedge funds amount to only \$180 billion but that banks are also involved in currency trading. And among them, the banks have got \$23 trillion. How can you counter that?

Q: You can't. But what the IMF is trying to say is that hedge funds police the currencies.

A: But every time a police man arrests a person, he makes a lot of money. Would you trust that policeman?

Q: Are you disappointed with Japan's leadership role in the region.

A: Yes and no. When the trouble started, Japan offered to raise \$100 billion to support these countries. But as you know, others objected because they said this would undermine the IMF....

Q: What's your reaction to the S&P downgrading of your currency?

A: The Japanese proposed to do a rating of the rating agencies. I think there is a need to do that. They failed miserably in pointing out that in July, 1997, the currencies of Southeast Asia would all collapse. If they are wrong once, they can be wrong again and again.

Q: What is your greatest worry now?

A: It is the continuation of this kind of [currency] attacks. Even if they stop, there is no guarantee that they will not start again."

By the end of 1997, Indonesia reached a desperate position:

- Within the last quarter of 1997, the Rupiah lost 40% of its value (but in 3 days after the IMF - in January it lost 30% !).
- On November 1, 1997, the IMF caused Jakarta to close 16 banks and strengthen the capital requirement for those remaining. Bankruptcies and mergers will shrink banks from 250 to about 50 within 2 years.
- With interest rates skyrocketing all national companies became starved for funds.
- The property sales came down 30 to 40% from a year ago.
- Petrochemicals came down from +30% growth/year to -10%.
- Everybody shelved all expansion plans.
- Millions of farmers that used to find extra work in construction to make their ends barely meet now cannot find these jobs.
- Malaysia is laying off 400,000 Indonesians.
- Millions of Indonesians were laid off.
- 2.1 million Indonesians enter each year the job market at a time it is shrinking.
- Some 23 million Indonesians are living below the poverty level. It is estimated that this number will become about 100 million by the end of 1998.
- The collapse of the Rupiah and the 50% hike of interest rates in January 1998 left 22 of the 282 companies listed on the Jakarta Stock Exchange viable.

The Suharto regime of Indonesia was brought to power in 1965 aided by the American National Security establishment to counter an alleged communist plot. He came to power at a cost of several hundreds of thousands of Indonesian lives. Within his 32 years of rule he created about 200 billionaires of his cronies in a land of 200 million Moslems. They controlled the Indonesian economy often if not always in co-operation with multinational companies and global financiers. Western democracy could see none of that until Suharto decided to challenge some of the IMF standard recipes. Then, all of a sudden, western democracies decided to remember how bad crony capitalism was, specially after U.S president Clinton advised Suharto to accept IMF conditions as if they were coming from the hand of God. When Suharto did not comply with Clinton's advice the infofinancial alliance started to work. U.S. secretary of State Albright "invited" Suharto to step down in a speech on May, 19, 1998. At the very same day, it was reported that the Pentagon announced that U.S. marines on helicopter carrier "Yellow Wood" are approaching Indonesian coasts. And at 0900 hours, Thursday, May 21, 1998 President Suharto resigned. He should have known better than to resist the hand of God. He who gave took. Suharto's successor Habib's acceptance speech that followed Suharto's resignation speech stressed that he will strictly adhere to the IMF conditions.

Those adhering to IMF packages don't seem to be doing too good either. Between the 1st week of February 1998 and the end of April 1998, Korea's composite fell by 27.3%, Kuala Lumpur composite by 16.5%, Nikkei 225 by 10.8%, Hang Sang by 7.5% and Jakarta composite by 6.2%. IMF bailouts seem to be only helping the global financiers to recover their loans without losses, and to buy back the projects and companies of these troubled countries at distressed prices.

The BBB syndrome power of the infofinancialist media kept claiming that recent economic meltdowns of South East Asian economies are the result of structural problems of those economies, or crony capitalism, or the way they manage their banks and financial institutions. The undisputed fact is that all the comparative advantages of these economies that gave them spectacular growth for two decades are still there. The same disciplined well-educated workforce, the same high productivity growth, and the same population that has a high saving rate which invests in future and accepts predominance of the group over the individuals. What caused the economic meltdowns of one Asian country after another was the speculators. Money, being a commodity that they can price, and God knows on what basis, left to their sentiments and greed, the speculators hot money and currency speculations were responsible for these crisis. The handful of speculators are getting richer, and hundred of millions of people's lives are being destroyed. The power of infofinancialism coupled with the power of a mighty lone superpower that can demand from sovereign foreign countries to consider IMF and U.S Treasury Department bitter deadly medicine as if it was coming from the hand of god is very difficult if not impossible to resist.

Ironically, it took more than a year of failures and the destruction of many national economies at fearsome speeds across continents for the owners of the infofinancial power structure to acknowledge that the orthodoxies they were imposing on the world through the Washington - Wall Street alliance were not only destroying the lives of several hundred million peoples abroad but that the Asian contagion was approaching their shores and may threaten their own prosperity. After advocating those orthodoxies for so long, the G7 and their media started to admit what many knew long time ago: Washington consensus recipes of the IMF and U.S Treasury were counter - productive and suppressing demand on their own products. Probably that was their main concern. They admitted that the trade surpluses generated by the distressed economies undertaking IMF medicines were directed for debt repayments to the same banks and financiers that caused them the crises. To promote demand Business Week (October 19,1998, p.84) proposed a "write-down and work-out of emerging market debt" advocating that banks who were partners in the crisis should have a "haircut on their loans" before the Washington - consensus institutions come to bail them out. All the IMF recipes recommended higher interest rates to the distressed nations and ended in austerities, national bank failures and corporate bankruptcies. Now "a coordinated easing of policy by the Group of Seven is critical as well" and the higher interest rate policy is now admitted to have been counter-productive. Even the G-7 finally decided that "a cautious approval of capital controls on incoming short-term hot money" was desirable. Dr. Mahathir Mohammad of Malaysia exercised some such controls in September 1, 1998 and only after his national economy was devastated for causes mainly beyond his national borders. He was branded as a "menace" to his country by George Soros who afterwards advocated such need for controls only after he lost over a billion dollars in Russia. When the Malaysian prime minister complained that the speculative hedge funds are hurting the productive economies, he was branded as an anti-western new kid on the block who keeps opening his mouth and spoiling their game. But when the world knew that Long Term Capital Management (LTCM) was so secretive and speculative not even its creditor banks knew enough about its operations and the extent of its loans. "Excessive loans to a highly-leveraged secretive hedge funds raise questions about the basic health of the banking system itself". Dr. Mahathir's earlier warning about the excesses and dangers of hedge funds and speculators was not taken kindly. LTCM hedge fund failed few months afterwards. LTCM was run by several of Wall Street savvy traders including two Noble prize winners for their work on the theory of option pricing. One wonders who deserves a Noble prize in the first place.

To the Indonesians that make up the world's most populous Moslem country, the hand of God is merciful. This unmerciful hand cannot be the hand of God, as Clinton instructed Suharto. This can only be the hand of the impassionate financiers and their IMF.

“...in 1853, American gunboats appeared in Tokyo Bay and demanded the right to trade... Today in the eyes of many Japanese, the American “blackships” have returned with vengeance. This time they have taken the form of U.S. investment banks, asset and hedge funds and speculators like George Soros all of them riding a tide of triumphalism as the west’s powerful capital markets overwhelm the closed financial systems that Japan inspired throughout Asia. As the Asian contagion topples economy after economy, the U.S firms are prying open these systems with a ferocity that 150 years of trade negotiations could not achieve ... consider: South Korean, Indonesian, and Thai banks, once largely closed to foreigners, are up for sale. In Tokyo, U.S. investment banks are doing more than 30 percent of the trading on the stock exchange... Wall Street’s moneyed classes, affecting a somewhat disdainful air, have begun showing up in Japan in recent months to pick over distressed assets.”

*Newsweek*, February 2,1998, p.47

“The Japanese have plenty to be proud of. Poverty barely exists. Income is more equally distributed than almost anywhere else in the world. The country still has huge pools of savings and massive trade surpluses.”

*BusinessWeek*, June 14, 1995

“To fix their economy (Japanese leaders) will have to demolish the world’s last big capitalist welfare state - which they have been loathe to do. Japan’s curious brand of capitalism incorporates socialist - style state subsidies, central planning, and rigid labor markets.”

*Time*, July 13,1998

## *Chapter 14*

### **THE ASSAULT ON THE CORE : JAPAN Going After Japan's Brand Of Capitalism**

As the post cold war era started, so did the fight of the Anglo-American brand of capitalism against the Japanese model. Now that communism is dead, the Japanese model of capitalism looked no more capitalism to the American financiers. It is a competitor and a dangerous threat to the global capitalism that the "Washington-consensus" financiers are trying to spread throughout the world. Japan was not only the world's second largest economy. It was closed to them, as they see it. Worst yet, the Japanese were spreading their model to other Asian countries such as Korea, Indonesia, Malaysia and Thailand. By adopting Japanese brand of development, these countries showed spectacular development. They were described as tigers. Asia, represented about 50 percent of the world's growth. And with communism dead, the chance was now for America to spread its free trade gospel that will allow it to achieve its global capitalism worldwide. Japan and its development model were in the way. Nothing is allowed to stand in America's financiers' way for world domination through capital markets and the mighty force of the United States of America.

The Japanese of 1853 must have found those Americans on the blackship as big strange creatures with guns around their waists and cowboy boots. They both came from two different worlds. One was as old as history that developed its unique culture. The other was a new country that was discovered accidentally. Those cowboys came from a land where might was right. There was not much of a culture, although a "cocktail culture" was being developed. These cowboys thought that the annihilation of a whole original American population was an act of God and a necessity. But that was 150 years ago. Now, at the end of the twentieth century these Americans are coming again. They now have a culture of their own, based on consumerism and desire. They no longer wear cowboy boots but they create fashion that is admired the world over. They don't carry guns, as they are armed with infofinancial nukes that can devastate any economy without the need to use conventional nukes. They are demanding this time not only free trade but they want Japan to change its culture, and its way of life. They want Japan not to be Japan.

The "peace & war" studies that were carried before and during the WW2 by the Council on Foreign Relations with the policy planners of the State Department came up with the global economy vision. This was initially expressed by a "Grand Area" in which, the studies concluded, not only Southeast Asia, but Japan itself must be part of this U.S.-dominated world. Even before the Japanese bombed Pearl Harbor and U.S entry to 2nd WW, the planners decided that in war and in peace the American economy needed an "elbow room" beyond the United States. The E-B 34 memorandum defined the Grand Area as the needed "elbow room" which consisted of the Western Hemisphere, the United Kingdom, the remainder of the British Commonwealth and Empire, the Dutch East Indies, China and Japan itself....

The markets and raw materials of these areas were judged as needed for the post WW2 order to be led by the American Empire. But Japan had its own grand area that Japanese policy makers judged as vital to Japanese national interests and the plan was called the "Greater East Asia Co-prosperity Sphere." The Japanese felt that China, Indochina, Thailand, Burma, Malaysia, the Philippines, and some Pacific islands must function under Japan control to ensure economic self-sufficiency. This is why the Japanese turned to these countries within the late 1980's and the 1990's to forge one economic area, after Washington exercised trade pressures on Japan. And this is also why the United States was watching Japan in that area too.

Americans realized, upon their occupation of Japan after the Second World War and dropping their atomic bombs on Japanese cities, that the re-industrialization of Japan was a necessity specially after the communist take-over of China, as long as it is done under U.S control. American State department policy planners and the National Security Council decided that Japan's industrialization did fit in the Grand Area global economy vision. Besides, the policy planners specifically stated that Japan poses no threat as long as the oil supplies to Japan are controlled directly, one way or another, by the United States. It was the United States that wrote the post-war Japanese constitution and

oversaw the development of the new political and economic systems of Japan. Japan, without an army and without control of its oil resources was toothless, thought the American planners. Japan & Europe were later on included among the Trilateral commission, the elite that participate in forming consensus to world policies.

The problem of Japan was the fact it was Japan. It had its own culture that was blended with capitalism to remove the rough edges of capitalism. This mixture of capitalism with the Japanese culture of the East or Asia, produced a modified version of capitalism. This capitalism had some differences with the crude Anglo-American capitalism:

- The Japanese culture values the society over the individual. Not so with the American capitalism that centered its growth on consumerism and the exploitation of human desires. The development models of the two capitalisms diverged. One was consumer driven, the other was export driven.
- The Japanese believed in giving their working population job security and that was expressed by life-long employment. This gave Japanese workers the peace of mind that made them devoted to their companies. They are less anxious than their fellow Americans who can get fired at a moment's notice, just to make an already good balance sheet slightly better.
- The Japanese outlook on money and banks differs sharply from that of the Anglo-American and American outlook. To western financiers, banks money is market-oriented. It should flow to where the highest returns are possible. To them the business of money is to make more money: period. To the Japanese, banks are "social stabilizers". Banks can lend money cheaply to corporations and companies to allow them to maintain full employment in the down cycles. To the Japanese system, full employment is more important than higher productivity. Also to the Japanese, banks are like other public utilities. They supply the nation with cheap money.
- The ownership as well as the function of banking in the Japanese system is different. The equity "cross-shareholding" between companies makes about 51 percent ownership of banks by their customers, who have no interest to increase money cost, as they will end up paying for such an increase.

After the collapse of the cold war order, both Washington and Tokyo started to view each other differently. A new class of "revisionist" economists took over the major positions within the Clinton Administration. They thought that Japan's economic model was not only different, it was a threat to American global capitalism. Simultaneously, some Japanese voices came to the open wanting their country to say no to America. After years of dependence on the United States they started to decry subservience to Washington. Shintaro Ishihara co-authored "The Japan That Can Say No" in the late 1980's followed by "The Asia That Can Say No" co-authored with the prime minister of Malaysia Mahathir Mohamad. The later book urges Japan to cleave to Asia and the East and abandon its ties to the west. They consider such ties as unnatural. Japan is a nation of Asian people with Asian blood. Kazuo Ogura while Ambassador to Hanoi called Japan and its neighbors to promote Asian values that included discipline, diligence and the primacy of the group over the individual. He was later promoted to deputy minister at the foreign ministry in charge of the foreign economic department. The CEO of Fuji Xerox Co. Yotaro Kobayashi calls this "re-Asianization". He coined a slogan "Leave the west, Enter Asia" contrary to the 1850 Japanese slogan that was "Leave Asia, enter the west". Malaysian prime minister called for an "Asia-only" trade block similar to the America-only NAFTA, to the dislike of Americans. The Japanese model was winning more converts by the day. British- and American-educated "Majmul Saqib Khan" was one of them. He was the Former Ambassador of Pakistan to Saudi Arabia and Japan and he authored "The Japanese Experience and Nation-Building in Southwest Asia." He endorses Japan's "government-plus market" formula.

So, Japan turned to the East. After all it was continuously bombarded by the Western media as obstructionist to world trade. It was accused of "fortress Japan" that was closed to other countries' products, and it was requested to decrease its trade deficits with the United States. The more pressure that was applied on Japan the more it turned to Asia. But the shift to Asia started to pick momentum in 1995 after the height of U.S trade pressure on Japan. Economic, cultural and political ties with Asia were strengthened at an accelerated rate. And it all made lots of sense. Asian nations were becoming not only manufacturing centers, often in joint venture with Japan, they became great markets for Japanese products. By 1997, Asians were buying more Japanese exports than the United States, and Japan was having its greatest trade surplus with them now. But the United States was watching.

"Individual deals don't rattle western experts as much as the prospect that Japan's entire model of export-led growth and barriers to imports will be imitated throughout the region" wrote (BW, April 10, 1995, p.112). "Some Asian governments are welcoming Japanese specialists to advise them on how to design and implement industrial policy. Japan's Ministry of International Trade and Industry (MITI) has experts visit China regularly to dispense know-how on industrial policy and economic development. 'If we've been unsuccessful in dealing with MITI, think what that means for us in dealing with China over the next 50 years,' says Mark Foster." The problem then was not only Japan, but it is the danger of the Japanese model spreading to Asia, China included. The Americans noted that Japan was expanding its cultural exports. Japanese attempted entry to Hollywood was made a very expensive multi-billion dollar venture for them. Sony disclosed a \$2.7 billion write-off for its venture in Hollywood's Columbia Pictures. But the Japanese are now expanding these cultural products in Asia. Japan public TV expanded its programming from 105 minutes to 12 hours per day. Japanese comic books & music bands started to appear in many places in Asia.

The Japanese started to compete with the Americans in technology transfer to the Asian countries. They started to send retired Japanese manufacturing engineers to develop parts industry in Asia, paying 75% of their salaries. Mitsubishi opened research facilities in China. And the Chinese were happy to see this contest between Japan and the United States. But the United States was not. They noted some of MITI people were advising now governments outside Asia, such as Russia and Poland. This "missionary" work as considered by BusinessWeek was going unnoticed by the western press "but in the next decade it could have a profound effect on global capitalism."

The Washington Consensus saw the Japanese model of capitalism as a real threat to "their" capitalism. Communism was the threat. Now its Japan's economic model. It is now the villain. If it is going to have "a profound effect on global capitalism" in the next decade the time to attack it strongly is now not later, as long as it is done in a way that it doesn't result in the American financiers shooting themselves in the foot. And the first visible and vicious battle was staged in 1995. From 1990 until then, a behind the scene battle was on-going. Now it was removed to the front stage.

The year 1995 was not the best year in Japan's history as it started with two major problems. One was with nature, and the other was with the United States. U.S president Clinton met the Japanese prime minister in Washington on January 11, 1995 and the U.S.A was demanding Japan to open and deregulate its economy. It wanted Japan to improve the trade deficit it has with the United States, which amounted to \$63.7 billion in 1994. Six days later, in January 17, 1995, the earthquake that hit Kobe was 10 times stronger than the one that hit Los Angeles. Yet Japan thought that dealing with nature was much easier than dealing with the U.S power structure. The American financiers and the U.S trade representatives concluded that it may not be possible to expect Japan to yield to U.S demand for total and immediate deregulation of its economy. Instead, it appeared that Kissinger's political step-by-step policy was now applied on the economic confrontation with Japan. The United States will specify specific demands and will insist on them. It will apply all necessary pressure until these incremental demands are met. It must change the Japanese model in Japan itself, but it will do so piecemeal. The 1995 piece was defined as Japan's opening its auto and auto-spare market for the United States. This seemed a credible demand as about 2/3 of the trade deficit is auto-related. The Japanese went to argue that Americans bought Japanese cars because they liked them better and they are made in the U.S.A. anyway. Japanese did not like American cars. If Americans themselves were preferring Japanese cars why shouldn't the Japanese. Some American car manufacturers tried to sell their cars in Japan maintaining the steering wheel on the left side as in the U.S.A, where as cars in Japan locate the steering on the right since they drive the other way on roads as was Britain. The American trade representative wanted to hear none of that. The U.S is determined, he said, to open the Japanese auto market and spare parts markets for what ever it takes. And the United States declared it will take certain sanctions against Japanese cars, including imposing tariffs. Such measures, thought Kiyohiko Nanao were "unilateral actions that violate international rules," are not acceptable to Japan. The Europeans thought that the U.S threats violated the newly signed articles of the World Trade Organization.

The U.S - Japanese trade talks held on May 5 1995 failed. On Sunday May 7 1997 Clinton held a meeting at the White House, with his secretary of Treasury Robert Rubin and other key economic advisors. The subject was Japan trade talks and the punitive measures the United States was to use in

case Japan did not give in. It was decided by the Rubin-financiers team that a super yen against the dollar was really the tool that can subdue Japan, as a super yen against the dollar will cause a sharp drop of exports and would greatly and adversely affect the Japanese economy. Also, the other tariffs against Japan will have some additional impact. Clinton inquired in that meeting about the reaction of the financial markets to the trade war. Earlier, even the hint about a trade war caused the dollar tumbling and stocks took a dive at Wall Street. Washington had to back down then. How about now asked the president. Rubin assured the president that financiers and currency traders had already discounted the dollar in anticipation of sanctions. That must have been inside information to financiers. After 40 minutes Clinton gave his approval on the first open confrontation with Japan. Japan was given till the end of June 1995 to comply, else sanctions and tariffs would apply. But the super yen pressure was already in progress. Ten years earlier the dollar equalled 240 yens. Now when the yen was brought to 80 to the dollar, the Nikkei started to fall to dangerous levels. At below 15000 the banking system becomes threatened of being under-capitalized by international standards and its lending capacity will be threatened. As the yen soars, the Nikkei dives and the game continued until Japan finally gave up and accepted U.S trade terms on the trade issue. Japan could take no more pressure. Since the Berlin wall collapse the Nikkei share prices tumbled by 60%. Domestic commercial prices of property fell by more than half. Since Japanese banks hold real estate at their acquisition cost not their existing values many of the Japanese balance sheets are not as good as it looked. The Nikkei is not making things better either. But for now, the United States OPC had the piece it wanted from Japan. Pushing it any further may cause an uncontrollable global economic crisis which will affect even the financiers themselves.

After Japan gave in to American demands the American magic started to ease the pressure on Japan. Within days from Japanese acceptance of U.S terms:

- The Nikkei was "assisted" up by +27% from 14,295 about the time Japan accepted U.S terms to 18,158 on August 16
- The yen, with assistance and intervention from the U.S Federal Reserve, has moved significantly by 25% in few months. At 85 yen to the dollar very few Japanese companies had any profits. At 90 many did.
- As a result of the super yen policy that Washington used in its trade war against Japan, the July 95 Japan's global trade surplus was brought down by 23%.

It was a lesson American financiers in harmony with the U.S government had taught Japan, the world's second largest economy. If Soros alone could tackle the Bank of England, the U.S government and the global financiers attacked the Japanese economy, big as it was. How big is the Japanese economy may be shown by giving an example: the Japanese Sumitomo bank alone have assets the size of the entire GDP of South Korea, the 11th largest economy in the world. Yet such huge economy was subdued!

The latest piece the global financiers and the American OPC demanded from Japan was foreign-exchange limits lifting due in April 1998 - some American "revisionists" on Japan believe that this step-by-step approach with Japan will not lead to Japan's surrender of its Japanese model of capitalism. They believe that Japan needs a devastating depression to bring the kind of changes they desire. Vice Finance Minister Eisuke Sakakibara believes that some components of Anglo-American capitalism may be incorporated, "But I think that Japan in the end is going to remain Japan". Sakakibara knows all brands of capitalisms. He was the author of "Beyond Capitalism." He argued in his book (1990) that special features of Japan's non-capitalistic market economy should be preserved. He earned his PhD in economics from the University of Michigan and he later taught at Harvard.

In 1997, the Japanese banking sector was being shaken. The Asian economic meltdowns were not of any help as Japan is the biggest lender to these economies. On November 24, 1997 Yamaichi Securities Co. with \$138 billion of investment at its care was bankrupt. It became Japan's biggest post-world war 2 bankruptcy. About the same time, Korea was inviting the IMF to come and give it its harsh prescription. Korea was built on the Japanese model and now it's in the hands of the IMF. Rudi Dornbusch commented on Korea's crises and his remedies in Business Week (December 8,1997). "Korea needs to open up its economy fully to outside participation. Foreign investors must take over and clean up the mess with a wave of unemployment that are long overdue. Neither the government nor the Korean business community can do the job.... foreign lenders, the IMF, the U.S and whoever

else participates must settle for nothing less." It is a take-over as Dornbusch demanded, and nothing less. Is this what is waiting for Japan next?

What we labored to prove in this chapter was said by U.S. president Bill Clinton as straightforward as diplomatic language allows at a White House event on Friday April 3, 1998 which was carried by Reuters and other press services. "We need to be both respectful but firm in urging the Japanese to take a bold course. The people within the (Japanese) permanent government there, which have always enjoyed great power, have to realize that the strategies that worked in the past are not appropriate to the present" (Reuters, April 4, 1998). In undiplomatic language "being firm" means the U.S. must apply all pressure necessary to produce the change the U.S. desires. Also in undiplomatic language "permanent government, i.e. the Japanese brand of capitalism, which was accepted in the past during the cold-war era "is not appropriate" (i.e. not acceptable) "at the present" i.e. in the post-cold war order.

This announcement of the United States president "happened" to be at the time the Asian European Meeting (ASEM) was taking place in London among 25 Asian and European economic powers. Another "co-incident" that happened the same day of Friday 3rd April 1998 was Moody's Investors Service announcement that it downgraded Japan's sovereign debt ratings from stable to negative. This happened to a Japan that owns the world's second largest economy. This all happened within 3 days only of Japan's liberalization of its financial sector in what became known as "Tokyo's Big Bang." Within that week of this cocktail of coincidences, Nikkei stock average plunged by 7.3 percent and the Yen also plunged to a 7 years' low as a result of Moody's downgrading. Such downgrading was made based on sentiments of a firm known to be close to the global financial power houses but its effect became real. Is Japan going to be continually hammered by the global infofinancial system until it gives up its own Japanese - economic model? Even the French President thought the Clinton announcement was off-limits as he told the Japanese prime minister at ASEM a few hours after Clinton's above statement: "It's not for others to tell Japan what it should do to be handing out advice." But it may be "not for others" to tell Japan, but the U.S. is not "others". It is the spearhead and mighty force of the new global financial order.

It is interesting again to note that Moody's second shocking announcement on Japan came about the time the ASEAN nations were convening in the Philippines late July 1998 and at the eve of the election of a new Japanese prime minister. Moody's and its investors claimed to be concerned about the Japanese economy, and expressed worry about Japanese transferring huge amounts of their savings after the deregulation (Big Bang) which actually was forced on Japan.

In the first quarter of 1998, we note that the ferocity on the Japanese financial system is intensifying. It looked similar to Korea 2 years before the IMF take-over or bail-out. At that time inside information was "discovered" about what Koreans knew all along: a government-business-banks cooperation the Korean way. Two Korean presidents were sentenced, and were released after the purpose of these disclosures and trials were consumed. Now, the hated Japanese Ministry of Finance is suddenly being discovered as "corrupt", and pressure is being enormously applied on those who were resisting changes to the Japanese model of capitalism. Some are on trial, and some committed suicide. Will Japan be really another Korea?

The question may sound naïve, but already Japan was rumored within global financial markets asking for an IMF bailout and using its bonds as collateral. Of course this did not occur but for such a rumor to surface among money and financial circles is incredible. It also means that such financial and money circles don't think that such an eventuality is impossible. Is this why "Wall Street's moneyed classes, affecting a somewhat disdainful air, have begun showing up in Japan in recent months to pick over distressed asset?"

The Japanese fundamentals are being attacked by infofinancialism that only wants one brand of capitalism. The socially - oriented group - predominated Japanese capitalism is no longer wanted or accepted. It is not because the Japanese fundamentals are not working now. These same fundamentals worked for the past fifty years and gave Japan the most spectacular growth in this century. It allowed Japan to become the second largest economy in the world even after total devastation of a world war. It created the most equitable socially - oriented brand of capitalism that gave both virtual no unemployment and high growth rates simultaneously.

It is the same fundamentals and comparative advantages the Japanese enjoyed during this spectacular growth that are now being attacked because such a system no longer serves the

infofinancialists as was the case in the cold war. Instead, it gives bad example to China and other ex-communist and developing nations and threatens the chances of financiers from further extraction of wealth.

A year after the Asian crisis, the Washington - consensus of free - market apitalism seems no longer universally accepted as a de facto ideological model for the post - cold - war order. Such a system is no longer taken for granted by everybody, and countries are opting out of it. "The Asian crisis is entering a new stage when beleaguered nations erect walls between themselves and the dangerous forces of world markets." (*BusinessWeek*, September 14, 1998, p.34). "Malaysian Prime Minister Mahathir Mohammad imposes sweeping capital controls, fixes the exchange rate and sacks his reformist Deputy Prime Minister. The Hong Kong government pumps \$12 billion into its stock market to foil speculators and plans capital controls of its own. Taiwanese officials make it more expensive to short stocks. South Korea cancels the sale of Kia Motors corp. rather than accept low but realistic bids for the bankrupt car-maker. And Japan refuses to let its biggest banks fail... For months, the Japanese have been making noises about a tough clean-up of the banks. But in the last week, the tune has changed. Those backing a radical banking sector overhaul are "amateurs" says Finance Minister Kiichi Miyazawa. "They have no idea what chaos will ensue." The same issue of *BusinessWeek* (p.25) adds, "Danger signs are everywhere: most U.S stocks are down 25% or more from their highs..... Asia sinks further into depression as Hong Kong, Taiwan, and Malaysia try to insulate their markets from the forces of international capital. Japan heads into its fourth quarter of contraction....and Latin America teeters on the edge of yet another recession. And the communists (the communists!) are on the verge of regaining a measure of power in Russia, following the devaluation of the ruble..."

“The devil was present when a dead substance was invested with the illusion of life, when filthy luere kept humankind distant from its own humanity.”

*Secrets of the Temple*,p.239

“We decide who will live and we decide who will die.”

John Buting  
Former CEO, Philadelphia’s First Pennsylvania Bank

“There is a story about the golden rule. He who has the gold rules.”

Charles Harwitz, Corporate Raider  
*When Corporations Rule The World*, p.210

## *Chapter 15* **THE POWER OF MONEY** **For The Cronies Or The People**

Gradually and hesitantly over the centuries, the human societies evolved their faith in money from one object to another each time driving it away from reality to abstraction. Money is an illusion that becomes reality only because and when people believe in it. Money’s importance was enhanced as its scope was increasingly enlarged from a medium of exchange to a store of value. It became even more important when it also became a unit of account. If money is a final expression for people’s payment for their work, which is energy and man-hours, then money is a form of energy. A man is compensated for his work and energy by a medium that he can exchange for other things including gasoline, the energy of his car, or food, the energy for his

body. Money power and energy may become a tool for devastation and destruction that are the nukes of the 1990's or for construction when utilized properly.

In early history people exchanged their goods by barter. It was something real and tangible for another thing just as real and just as tangible. As the volume of commerce increased people needed something easier than the physical carrying of objects, each time they needed to do a transaction. Some unit of measurement evolved and in some societies they related the measurement to a predominant commodity -- a specified volume of wheat, or cattle. As the early religions spread, and as commerce became more complex it was decided to make the shining metal gold as the standard. Probably because it was scarce and took lots of labor and energy to produce, it was chosen to compensate for other people's energy directly in case of labor, or indirectly in case of produce. But the valuation of how much gold for what commodity left room for human judgment, and it required faith of some sorts. Temples being the house of faith, became the place of exchange by the early money people some of whom were priests. What better place to find and exchange a commodity that required some faith. The mystique of temples and the obscurity to some questions about faith became characteristics of money until to-day. People continued for centuries using gold, at least in the Judochristian world, since the Moslem religion for instance had objected to the use of gold, banned usury and introduced a new philosophy about money, its distribution and ownership.

Rather than keep carrying gold & silver people deposited their gold with trustworthy money people and goldsmiths for a receipt. Any time they presented the receipt they could claim their gold. As time went by goldsmiths learned that they can issue more receipts than the amount of gold deposited with them. After all, not everybody was coming to claim the gold simultaneously. They learned that extra receipts may be issued and these could be given as loans to others. They also learned that if goldsmiths of a region cooperated together they can be the RESERVE for one another, and thus they could even be more aggressive and issue more uncovered receipts. Thus, the private banking system emerged and this was the status of the banking system that was inherited by the American Republic. The amount of paper notes the banks could issue equalled the amount of gold they had plus their sentiment of how much more they can safely issue plus the trust of their clients. Less tangibles and more abstraction became attached to the money game. Now the mathematical equation became:  $\text{Gold} + \text{Sentiment} = \text{Money}$ . Sentiment was, still is an unknown quantity subject to a complex of instincts, greed is not the least of them.

The bankers and financiers also learned that  $(x)$  amount of money +  $(y)$  amount of money can give more than  $(x+y)$ . Likewise chemists learned in their labs that you can add  $(x)$  material +  $(y)$  material you may get more than  $(x+y)$  as you may get heat energy (in exothermic reactions). The additional power or energy that comes from adding money can be called synthetic energy or synergy! The banker can leverage his money with other people's money to the highest ratios in any business and still have the power on who should be given a loan and who should not -- or as John Buting said it: Who will live or who will die -- a role that most people believed should be left to God. People had to trust in a piece of paper to make it money, but people still wanted to trust in God, not money or the bankers. To please those God-trusting people, the phrase "In God We Trust" was inscribed on American coins.

Prior to the American civil war the United States did not have a national paper currency. Paper notes were issued prior 1862 by some 1600 state banks which issued some 7,000 different kinds of notes some of which was not worth much. The American civil war was a landmark in the history of money for what occurred during that war and the decades that followed within the 19th century. To finance the civil war Abraham Lincoln borrowed \$2.6 billion. He for the first time in American history issued about \$500 million paper-money that was not backed by gold. This money, called the greenbacks, was money backed by the strength of the United States government. As it was authorized, the Congress suspended the gold standard. During the war, the bankers & financiers did not object to the greenbacks nor to the suspension of the gold standard. For one thing, the government borrowed from them the then astronomical figure of

\$2.6 billion and they probably did not have enough gold to support that loan much less the needed additional \$500 million. But soon after the war the financiers of the East demanded that Washington return to pre-civil war conditions. The sudden increase of money supply fuelled the industrial revolution but also caused an inflation. Between 1861 - 1864 prices went up by 74%. Besides, the financiers did not like the precedence of government getting its nose in their money business. It was indeed a war necessity, but now there is no war and thus no necessity. They demanded that the money supply be controlled to pre-civil war level and that gold be also pegged at pre-war level of \$20 per ounce. And the government complied. The government retired the greenbacks from circulation, the gold standard was reimposed on all currency, and money was pegged at pre-civil war level. This not only ended the inflation but it brought also the era of Great Deflation.

The hardest hit were the farmers. The East financiers advocated price stability behind the measures they requested but prices not only came down to pre-civil war levels, they continued going down. Wheat sold to \$2.06 a bushel in 1866, became \$1 in 1876, \$0.80 in 1880 and down to \$0.35 in the Dakotas in 1890's. While the farmers were subjected to such distressful prices, the falling prices were accompanied by usurious interest rates that approached or exceeded 100 percent. The furnishing merchant charged 25% to 50% for credit sales. Additional 30% or 50 percent of interest were added at the end of the season.

In the Lampasas country, Texas, distressed farmers formed the Knights of Reliance who renamed themselves as the Farmers Alliance. This movement which was formed in 1877 became known as the populist movement. The motive of the movement was self-defence against tight money, usurious lenders and deflation. They decided to form co-operatives amongst them that will buy for them their needs at wholesale prices and will store their products and sell them at optimum prices. They devised a scheme whereby they can provide their farms and cattle as security for the operating loan. The biggest such co-operatives was the Statewide Texas Exchange that had a devoted and brilliant business manager called C.W. Macune. Confidently he ordered over \$100,000 of supplies from wholesalers, sold stock shares to the farm families, collected \$20,000 and \$200,000 in collaterals from farmers to secure the operating loan. He tried to borrow the working capital to pay for the wholesalers and he was turned down by every banker. Only through a state wide fund-raising campaign could Macune secure \$80,000. But the second year the co-operative could not make it and had to go under.

History books never gave due recognition to Macune and the other populist economists for their original thinking about democratizing money and overhauling the American financial system. Macune who was a trained doctor and lawyer became a self-taught economist. He wanted to learn about money and was seeking original solutions that would entail a fundamental change in this unfair lending system. Populism had a spontaneous spread specially in the predominantly agricultural states. At the St. Louis Alliance convention in 1889 Macune had a plan:

- The plan called for the United States government to employ its faith and credit power to assist the "producing classes" for their production, not the bankers.
- The populists wanted to abandon the gold standard - and create a central bank for the United States of America.
- They advocated that democracy required a democratic money system that decentralized the control of credit and allowed it to flow to the real producers thus spreading opportunities and income as widely as possible. This can be accomplished by direct government lending to producers without middlemen (i.e banks).
- They detailed a complete scheme that became known as the sub-treasuries scheme. At every county of significant agricultural production, the U.S Treasury would establish a federal warehouse and grain elevators, thus creating thousands of these centers called sub-treasuries. A farmer can deposit his produce at the sub-treasury and then borrow against his crops at 1 to 2 percent rate. He may sell his crop at the going prices or he may want to borrow on the

value of his land. The farmer can be paid by the greenbacks - the dollars printed without gold cover, but now are covered by real production. Payment may also be made by other negotiable certificates of deposits that can be traded. This money supply, the plan argued, may be theoretically withdrawn after farmers pay their loans.

- The purpose of land loans, they argued, was to stop deflation by raising the money supply to about \$50 per capita which was similar to the per capita money supply during the civil war.
- Money should have a social purpose - not money to make more money.

Obviously this plan would circumvent the bankers out of the lending process and the credit would go directly to the users. Such a system could never make it as long as the bankers have their boys in Washington and as long as they still command the power of money. It will be noted that eventually many of the populists' demands were proved to be necessary by the American economy, but such measures were adapted to use the good offices and services of the financiers and bankers always. A central bank had to be created later, the price-stabilization they suggested was used during the Great Depression and the gold standard was finally abandoned several decades later.

The industrial revolution was accelerating and by 1890 the official U.S census showed revenues from manufacturing exceeding revenues from agriculture. If the agriculture suffered greatly, the industrial revolution was bringing problems and turbulences of its own. As many as 1,600 strikes in the year 1886 occurred. The post civil war decades produced a Great Deflation, two depressions, bank failures and popular discontent. The banking sector in this period introduced demand deposits & checking accounts. This new money drove it further into abstraction as now people accepted money as a number and an account in a bank's ledger that may be redeemed by another paper; a personal check or draft. By 1900 most people accepted this money.

For two decades after populist economist Macune demanded the creation of a federal central bank, the banking system in the U.S acted in a way to prove how right he was. The system was shaken by one tremor after another. One was in 1893 and another in 1895. Within this period investors now worried from a political revolution as the populists were at their peak, or they feared hyperinflation. They began in 1895 to flee from the American system and started to withdraw their money from U.S financial institutions, demanding gold and shifting it overseas - mainly to Europe. The federal government own reserves of gold were drained so quickly. In desperation the U.S government turned to J.P Morgan who organized a syndicate of bankers. They gave the U.S 3.5 million ounces of gold as a bailout. J.P. Morgan & Co were acting as the unappointed central bank of the government. After the 1893 bank crisis the American Bankers Association proposed in 1894 what they claimed to be a reform: the creating of a new national currency to be guaranteed unconditionally by the United States government, but (and that is where it differed from the populist proposal), to be distributed by the commercial banks. The bankers thought they should have the guarantee of the United States and they will decide afterwards who will die and who will live and make some money while doing so.

Between the year 1900 and 1912, the number of banks multiplied from about 10,000 to about 25,000. Many were far away physically from New York. Many of the new comers could not be easily bullied. The co-ordination became harder and the 1907 crisis came to prove it. Now, trouble caused the third largest bank in New York to go into bankruptcy and two others were almost driven to the limits. J.P. Morgan and his men decided the crisis was beyond their capabilities and called directly the U.S president for help. Washington sent the next day \$25 million to the New York banks practically interest - free to be deposited, so that the New York banks can lend it to the other distressed banks, with interest of course. The Treasury issued \$150 million in low-interest bonds and certificates. It also permitted banks to use government securities as collateral for creating new money, thus expanding the money supply very quickly. Serious economic consequences resulted from this crisis, but it subsided. The crisis showed that the previous order needed revamping. A new way of co-operation procedures between

government and the banks and Wall Street tycoons became obviously necessary. A new order of government and its Wall Street cronies must be found.

Faraway at the Jekyll Island, Georgia, the Wall Street brains and muscles met, clandestinely in 1910 to define the terms of the new financial order. They came with a recommendation for the creation of a National Reserve Association that should act as a central bank. They defined the functions and organizational structure of this new system, which except for very few details, became later the Federal Reserve System Act of 1913. The central bank, first proposed by populists, wanted the power of money and guarantee for the people, especially the vulnerable working classes. The 1913 act forged a government Wall Street alliance that really made the first crony capitalism in the 20th century, much earlier than crony capitalism became a trade mark for many of the Asian economic systems.

President Wilson never made a secret of his pro-business pro-Wall Street tendencies even though he was classified as a conservative democrat. He praised J.P. Morgan and spoke positively about the rise of huge corporations expressing his conviction that that was the order of the day. After the Federal Reserve System Act was passed some members of congress expressed their views about the new system. Representative Joe H. Eagle of Texas said the banks were the benefactors of this act as they were "guaranteed against loss by the establishment of a paternalistic relationship or private partnership with the government." By definition, crony capitalism is a partnership between the government and the cronies. Congressman Robert Henry of Texas thought that the Fed legislation was "wholly in the interest of the creditor classes ... without proper provision for the debtor classes...."

The creation of the Federal Reserve and the system of its management away from the democratic process and public accountability marked a new era in American history. The progressive reformers dominated the first two decades of the 20th century and were mostly from the elites: professionals, businessmen and academia. They eyed with contempt the populists and their rhetorics and considered the masses and their general opinion destructive at times, and incompetent most of the times to be involved in the big economic, financial and social issues. Such important issues were better conducted and managed by the elite and the era of elite deciding behind closed doors was institutionalized.

The American system of governance has a built-in bias for the privileged and the wealthy. The system design ultimately gives disproportionate power for the wealthy to be represented in government. This is why as far as the 19th century and after experiencing such a system as its chief executive, president Hays concluded: "This is a government of the people, for the people, by the people no longer. It is a government of the corporations, for the corporations, and by the corporations."

This process of creating national policies by technocratic not democratic processes was institutionalized at this time which witnessed the creation of the Council on Foreign Relations. For the Bretton Woods era it was the Bildburg that combined the elites of both sides of the Atlantic for the creation of national and now international policies behind closed doors. And for the post-Bretton Woods era of infofinancialism, it was the trilateral commission that now included Japan along with the U.S.A & Europe. For each era and order, the proper institution was created for the specific purpose of creating and formulating policies away from representative government. Money power, media power, and the marketing power (the 3 M's) would then install committed candidates to infofinancialism agenda into government positions to implement the policies that were decided undemocratically. Mechanical democracy was perfected to package these policies and institutions and their candidates for elected public offices in a way that was discussed in a separate chapter. Important issues were decided behind closed doors and the theatrics of elections was left for competing candidates who all must have accepted the platforms of the elite. The system of governance increasingly became technocratic, not democratic. As capitalism had moved to consumerism it excelled in selling its "financial & political" products in a packaged form that can sell. And it had the means to do it. As money was a vital issue to the bankers and the elite, they helped create the Fed insulated from the public

and accountability. What helped create this change in America was many changes one of which was America's transformation from a predominantly agricultural society to more of an industrial and consumer society. The number of Americans who worked in farms came down in 1900 to half of what it was after the civil war. Farmers, who are always independent by nature, became a lesser force in the American society and politics.

The first litmus test for the Fed came after WW1. To finance the war the government borrowed heavily and the national debt became \$27 billion, an increase of \$26 billion within a few years. Prices were rising at 15 percent by 1919. To fight the inflation the Fed raised the discount rate by almost double which resulted in dramatic price deflation. The country went through a depression for about 18 months. Commodity prices fell by 50% within 2 years -- manufacturing came down almost by half! Unemployment went up by 500%. Banks failed -- over 500 of them in 1921 alone. The Fed's concern was to fight the investors enemy - inflation - and they showed little sympathy for anything else. One member of the Federal Reserve board said "liquidation of labor" was necessary to restore "sound money". The awesome power of the Fed became obvious. Their decisions can have great or grave consequences on the economic life of all Americans. The economy recovered in 1921. The 1920's introduced new technologies and innovations that increased productivity astronomically. The consumer culture was spreading. Mass production and consumption of electrical appliances and cars boomed. Wall Street prices were soaring. Yet, labor unions lost membership and farmers share of the national income went down to 9% in 1928 from 15% eight years earlier. All was forgotten, as what mattered was Wall Street was breaking new records. Suddenly, on October 24 1929 the stock market collapsed like never before. Within days from that "black Thursday" Standard and Poor's Composite Index fell from 245 to 162. Some blamed the Fed policy of easy credit in 1927 to be responsible. Due to bank debts being liquidated by bankruptcies and defaults money supply decreased by one third between 1929 to 1933. It took the government hand, not the hands of the markets, to bail the financiers out of the depression, and in 10 years the size of the U.S economy hardly came to what it was 10 years earlier. Businessmen and bankers accepted the government's intrusive role in their business as long as it serves their purpose.

It took a second world war to really jumpstart the U.S economy into growth again. And in preparation for war and peace afterwards, the elite of the United States, through the Council on Foreign Affairs were entrusted to prepare "war and peace" plans. Such plans specifically stated that the United States must go global as soon as the war finished and the first step would be to create global governance institutions that would aid in achieving that purpose. The "Grand Area" was defined as the minimum space needed for the U.S. economy to have as a source of raw materials and a market for its products. The Bretton Woods agreements and the United Nations were a result of those studies.

The final touches of the Bretton Woods system were made by Harry Dexter White from the American elites group that was drafting the new vision during the war and Keynes. The global governance instruments (IMF, WB, GATT & U.N) were created to manage the new world order to lead it to a global economy.

For the next 25 years the United States economy did not demobilize for peace, as proxy and direct wars were features of the post WW2 order. In addition, substantial reconstruction aid to devastated countries of Europe kept the American economy humming at high growth rates. By the early 1970's these economies became strong and started to compete with the United States economy itself.

The Bretton Woods system created a fixed exchange system that was anchored to the dollar. Any country can come and collect the dollars it has at \$35 to the ounce of gold. In the 1960's -- especially during the Vietnam War -- the United States printed much more dollars than it can redeem by gold according to its Bretton Woods commitment. In 1971 the U.S had \$36 billion of dollar claims against only \$18 billion of gold reserves kept for convertibility to the international financial community. The United States could not honor such claims. The USA that

was the “Central Bank of the World” had two choices: default or default. Either continue with Bretton Woods and default, as it did not have the reserves, or unilaterally cancel Bretton Woods, which is also a default of Bretton Woods done by one party alone. On August 15, 1971, Nixon changed the rules, and Bretton Woods was pronounced dead in March 1973. The whole money game was now radically changed and the world financial system entered into a new phase as of 1973:

- The fixed exchange system was abolished and now the financiers -- called markets also -- can determine the currencies of other people. They will use their judgment, based on their perception of facts and they can force governments to behave. Now the financiers became above governments -- they can discipline governments and make money while doing so. The age of deregulation arrived.
- The Fed was left the basic job to control the money supply always as per the advice of Wall Street and to maintain its interests. The Fed chairman normally listens to the voice of markets - the packaged word for the financiers. Nixon wanted to remove the chairman of the Fed W. M. Martin but he couldn't until Martin's term ended. Carter had to listen to Wall Street to appoint Paul Volcker, but even though he differed with Volcker he could not change his policies-. The age of cronyism - USA was forged as never before or as never anywhere! And the age of deregulation arrived.
- Money was now closer to pure abstraction as ever.
- People all over the world who bought, traded with or stored dollars based on a pledge from the United States government to redeem their money in gold at \$35 an ounce lost much of their fortune. That happened not because of a fault of theirs, but because the U.S could not honor its pledge to back all printed dollars by gold.
- This caused a financial revolution that sacrificed the fixed exchange system to a no-system. Currencies and money became a commodity, just like any commodity, and it was left for a handful of financiers, and their markets to set these prices.
- The financiers judgment is always based on sentiments, an intangible unquantifiable object that cannot be scientifically measured. How can national currencies, and the fate of nations be steered by sentiments of people whose business is to make money, not to be social reformers! How can the sovereignty of nations, the destiny of mankind be left to the judgment or to the greed of the very few!
- If the Bretton Woods system was anchored to the dollar (not by a global credit system as suggested by Keynes) the present global financial system is anchored by greed.
- If monetarists consider money supply controls as the essential item to control economies, with the newly-acquired capability of the financiers to create endless money supplies through various instruments, then the world economy is now widely out of control.

Money started as a medium of exchange based on tangibles. It is now no more than electronic impulses on computers. The age of money as pure abstraction and complete illusion has arrived.

If the faith in religions and spiritual values creates a state of mind, a perception, that gives better discipline and less anxiety in life even with less consumerism and materialistic abundance; if also the promise of rewards in the hereafter is an illusion, it is still better than the faith in money, certainly an illusion, but one that associates itself more frequently with anxiety and insecurity. By mathematical deduction, it can be concluded that the trust in God, is more profitable even in worldly terms, than the trust in money.

“....the communications cartel has exercised stunning influence over national legislation and government agencies, an influence whose scope and power would have been considered scandalous or illegal twenty years ago.”

Ben H. Bagdikian  
*The Media Monopoly*

“We must hold Hollywood and the entire entertainment industry accountable for putting profits ahead of common decency.”

Bob Dole

“Nearby, at the Time Out video arcade, Jordan Trimas, 16, is playing Primal Rage, a game in which dinosaurs tear one another to pieces: “Sure, the violence influence kids,” he shrugs, “but nobody can do anything about it.”... But over at Taco Bell, 15 -year-old Christopher Zahedi will tell you he prefers the rougher stuff, “I liked the part in Pulp Fiction where the guy points a gun and says a prayer from the Bible and then kills everybody,” he offers. “You hear the gun go brrrr. It is cool.”

*TIME*, June 12, 1995

## *Chapter 16* **THE POWER OF MEDIA**

The 16-year-old quoted by TIME above admitting that violence influences kids. “But nobody can do anything about it,” may be true as long as a handful of ten media conglomerates control the media industry regardless whether people like it or not, as long as it sells and makes money. In the age of deregulation to everything, including culture, and the age of market-rule, not the rule of ethics, the biggest ten media corporations seem to be happy with their financial returns on assets. As corporations that is what matters to them. Only problem is they are monopolizing “culture” and they are driving it the other way, away from what the majority of people want. Ten profit-driven CEO’s can control a national culture against the will of the majority. That is neither democratic nor a result of a first amendment guarantee to the corporations. First Amendment rights were given to people not corporations. It was later in the 19th century that corporations lobbied to be included. It is a rude and crude use of power against the first amendment rights of the majority of people who just happen not to have equal rights “of power” to confront the media owners. The TIME poll published in the same June 12, 1995 article on the unpopular culture shows:

- 77% are very concerned or fairly concerned about the amount of violence depicted in movies, television shows, and popular music.
- 70% are very concerned or fairly concerned about the amount of sex depicted in movies, television shows, and popular music.
- 76% thought that depiction of violence in movies, television shows, and popular music numbs people to violence so that they are insensitive to it.
- 75% thought that this violence in entertainment inspires young people to violence.
- 71% thought that such violence in entertainment tells people that violence is fun and acceptable.

The number of corporations controlling media had shrunk from 50 in 1984, to 26 in 1987 to 23 in 1990, to about 20 in 1993 to about 10 in 1996. The 10 are: TIME Warner, Disney, Viacom, News

Corporation Limited (Murdoch), Sony, Tele-communications Inc, Seagram, Westinghouse, Gannett, and General Electric. But where are the major TV networks? NBC is now a General Electric Company, CBS with Westinghouse, ABC with Disney, and FOX is with News Corporations Limited (Murdoch)! How about CNN? It is now a Time Warner Company. Thus all carriers of media; newspapers, magazines, movie studios, radio and TV networks are concentrated in a few hands.

Is there a conspiracy to explain this concentration of power of the media in the hands of the very few? Ben. H. Bagdikian, the dean emeritus of the Graduate school of Journalism at the University Of California, Berkely in his book *The Media Monopoly* argues, "There are conspiracy theories to explain the rapid concentration of media power, but in modern times actual conspiracy is not necessary. The absence of a conspiracy, however, does not mean that large media corporations lack power or fail to use it in a unified way. They have shared values. Those values are reflected in the emphasis of their news and popular culture. They are the primary shapers of American public opinion about events and their meaning. And through that, and their organization in large powerful corporate units, they are a major influence on government".

The power of the media is such it can make or it can break. And it can be selective in what it publishes and on what it broadcasts or narrowcasts. The power to make, can be illustrated by how media made Billy Graham. The heads of two of America's biggest media corporations, Henry Luce of Time and William Randolph Hearst were concerned about the rise of liberalism in the United States and the threat of communism. They heard about an obscure preacher holding tent meetings in Los Angeles. Attendance was poor. They liked the idea of promoting evangelists to check liberalism and communism and they interviewed Billy Graham and liked what they heard. They decided to give him their media support. Within two months of Hearst telegraphing all his Hearst editors: (Puff Graham) Graham was (puffed) in Hearst newspapers, magazines, movies, and newsreels, and Graham was preaching to crowds of 350000. Billy Graham was made a national hero instantaneously. Few months later Time & Life got into the act. Time had Billy Graham on its cover. Preacher Graham and Mc Carthysm started at about the same time. Mc Carthy's anti-communist campaign was fuelled with lies about the list he had about the many communists working at the State Department, while privately admitting he has no such list or such names. The Billy Graham Campaign was "Either communism must die or Christianity must die". And now after the death of communism the Christian-loving media is no longer Christian-loving as evident by the culture it is promoting. A film about Jesus Christ implied he was homosexual. Time Warner "has put out much of the most offensive music" wrote Lynne Cheney in Time (June 12 1995). "In one scene of Oliver Stone's film *Natural Born Killers* the hero drowns his girlfriend's father in a fish tank and kills her mother by tying her down on her bed, pouring gasoline on her and burning her alive. Meanwhile, a raucous, laugh-filled sound track tells the audience to regard this slaughter as the funniest thing in the world...Time Warner CEO Gerald Levin, whose company produced *Natural Born killers* and has put out much of the most offensive music, says that rappers like Ice-T are misunderstood: when Ice-T chants "Die, die, die, pig, die" he is not really advocating cop killing, but trying to put us in touch with the anguished "mind of someone who feels that way. This is nonsense-rationalization of the most obvious sort." "Bullet in the Brain" was about killing a police officer. Shimmy Shimmy Ya was a rap song encouraging sex without condoms. Disney, through its subsidiary Miramax distributed the film "Priest" which depicts a gay clergyman and a sexually active straight one. Such "cultural pollution" can hardly come from Christian-loving or ethics-loving media.

Is this the culture of advocating cop-killing, violence, murder and suicide that triggered the August 9 1997 incident with Abner Louima, a Haitian immigrant? As reported in Time August 25 1997 he was supposedly attending a music club in Brooklyn that Saturday when two women started a fight. The police took him to the station. He claimed he was beaten by police in the way. He was strip-searched at the station. Two policemen took him to a bath room and shoved a wooden pole, presumably belonging to the toilet plunger, into his rectum. They then forced the stick into his mouth, breaking his front teeth. Upon examination at hospital, doctors found he had a ripped bladder and a punctured lower intestine. The two policemen involved went into trial after national news covered the story. Prior to that, many newspapers, newsmagazine, TV networks and even police headquarters contacted by Louima family did not even want to discuss the story or they did not take it seriously! The violence culture seems to be affecting the law!

If the First Amendment was meant against attempts by government to restrain expression, how about the bigger-than-government media corporations which can be very selective in what type of culture to promote and which to censor? And how about the unequal opportunity available to 99% of the population versus the one percent class that owns the media and other components of the power structure? The mechanics that made a First, a Fifth or a Hundredth Amendment is there, but the will and power to make it is not. In the decision-making process as explained elsewhere in this book, you buy your influence, acts, and amendments. Commenting on the New Pro-media Tele-communication Act of 1996 the New York Times said that “\$40 million worth of lobbying bought (underlining by Author) telecommunications companies a piece of senate legislation they could relish”. That was the lobbying of the media industry to promote a favorable legislation. In 1994 Murdoch discussed with the new House Speaker Gingrich his tax and other corporate problems. Murdoch afterwards offered Gingrich \$4 million contract for a book not yet written. After the public expressed anger, the amount was reduced. How about written books? Kermit Roosevelt, a CIA officer who was active in the Middle East, was mostly known as the one who managed the counter coup that overthrew the democratically elected government of Iranian premier, Mohammed Mossadegh in 1953, and reinstated the autocratic Shah. The motive was the control of oil and the plot against Mossadegh was called Ajax. Roosevelt wrote a book that was published in early 1979. The book disclosed that the original proposal for Ajax came from BP which was then called the Anglo Iranian Oil Company (AIOC). And that was 9 months after its expulsion from Iran. British Petroleum talked the publisher “Mc Graw-Hill to recall all the books- from the stores and from reviewers”. The book was: *Countercoup: The Struggle for the Control of Iran.* (P 39 - The Media Monopoly).

We noted elsewhere that the competition with communism tamed some rough edges of capitalism. So did the measures taken by the government to combat the great depression. The social programs created a middle class, and the one percent class wealth as percentage to the country's wealth was in decline. Starting from the seventies, the tax laws of that decade and the following decades reversed the trend. Once more inequality came back to its early 1920's level. The concentration of media control took the same curve.

The media cartel of the airwaves began as early as 1919. RCA (Radio Corporation of America) was an umbrella of a cartel of which 4 companies that decided to share this new emerging market. They were General Electric, Westinghouse, AT&T and the United Fruits Company. The National Broadcasting Company (NBC) was the group's radio network. CBS got into the business in 1927. The FCC forced RCA to divest one of its two radio networks and thus ABC was created in 1943. One of the early motives to own media was the political power it can create. Also, the corporations that owned the network then as now, were huge corporations whose main interest was to promote corporate culture and corporate legislations. The media rarely mentioned the changes of the tax structure between 1950-1984 which reduced corporations contribution to the federal government revenue from 25% to 8%. Likewise, corporations and their media had no interest to dwell on the fact that from 1987-1994 the purchasing power of the minimum wage dropped by 35%!

Advertising also is big business that is one of media's effective tools. It was estimated that \$240 billion were paid for global corporate spending for advertising in 1989 alone. In that year, another \$380 billion was spent on packaging design and other promotional tools. This huge amount of annual expenditure not only promotes specific products to create demand. It also helps to spread a global culture and a global life style that conforms with the consumerism culture of the Anglo-American global capitalism. The amount of money involved in this service, exceeds what is spent by many of the poorer countries on education.

Through television, the culture and behavior of Americans and others are shaped. The American child between 2-5 years of age spends an average of 3½ hours on television per day whereas the average adult spends about 5 hours daily. Only work and sleep exceed television time. The average American adult will see about 21000 commercials per year. The largest 100 corporations in America pay for about 75% of the TV commercial time. When 30 second prime time commercial sells for \$200,000 - 5,00,000, it is only those huge corporations that can afford it and that will put the smaller companies to a disadvantage. They cannot afford such payments. It is those corporations who dominate the message of the commercial, the content of the media culture, and it is those handful few that monopolize this critical business.

The power of media as illustrated in the chapter on "Mechanical Democracy" illustrated how a mix of media, money and marketing can make or break a president. The case illustrated how Yeltsin with only 6% approval rating was elected president six months later. Without the media this couldn't have happened. The media role in the downfall of Richard M. Nixon and his removal during his second term also illustrates the point. Presidents before Nixon did what he did and probably much more. But when the media owners decided to go after him for some reason they brought his downfall. Collusion with other components of the power structure of the American establishment was certainly needed to provide the "inside" information. When Michael Hart had extra matrimonial activities the media watched him like hawks 24 hours of the day, and the media thought he did not deserve to be a presidential nominee. But when one girl after another protested extra matrimonial activities with the yet little-known presidential candidate Bill Clinton, the media was very forgiving. Jennifer Flowers not only accused him of sex with her. He admitted the act. George Bush repeatedly complained that an orchestrated media campaign was synchronized against his re-election. Many neutral observants noted he was right. The media with money and marketing made a bad image of Bush and it was "the economy stupid!" Yet the fundamentals and performance of the American economy is little affected, if any, by the color of the administration at the White House. Both Republicans and Democrats carry the same agenda laid for them by the establishment institutions of the owners of the power structure of the United States: the one percent class. It was a NAFTA for the Trilateralist Bush, and it became a NAFTA for the Trilateralist Clinton. The same tax package and budgetary items are almost identical in trilateralist administrations except for cosmetic changes that may be necessary to give the mechanical democracy a "democratic" flavor.

The media cartel can be felt when you travel throughout the United States. There are thousands of radio stations, and thousands of TV stations, and thousands of newspapers. But in reality if you heard one you heard them all because these media components are owned by the handful of corporations mentioned earlier which share the same values. Most of the American cities have few papers and they are owned by the same people. The 4 TV networks are identical in substance and in message. They may differ in form. If it is "Today" or "Good Morning America" you will not see a difference except for the anchors of the programs. The same for Evening News. Everybody is passing the same message.

The power of media is synchronized to serve global infofinancialism and is mobilized to serve its agenda in peace and in war. During the Gulf War the infofinancialists were marketing the war to the various segments of societies. Targeting the environmentalists, CNN aired a dying oil-soaked bird as a Gulf bird dying from oil spilled in the Gulf by the cruel Iraqis. The viewers advised CNN that the "poor" bird they showed was an Alaskan bird not a desert bird of Arabia, and it was killed by the oil spillage caused by American multinational Esso in Alaska not by Saddam Hussein of Iraq. CNN apologized for this obvious misinformation. After CNN Baghdad correspondent Peter Arnet contradicted the Pentagon story that there was no evidence that the bombed milk factory in Baghdad had any weapons manufacturing facilities, Peter Arnet was silenced and Chistain Amanpour was dispatched to Baghdad. Reporting within the rules of infofinancialisms' agenda, she was rewarded with fame and money.

The power of the media in mass-hypnosis and brain-washing is both amazing and scary. It can paint the red as red when it serves its owners agenda, but it can also paint the black as red and claim those who do not see it that way are just only color-blind. Then all the eye doctors become overbooked with patients complaining of their color-blindness. When a doctor tells his patient he is not color-blind the patient will often just change the doctor. After all, CNN told him he is color-blind.

The ownership of the media by the handful few corporations creates a distortion and a Paradox. The American government, if it owns the media and the airwaves have a First Amendment that guarantees equal opportunity of expressions without restraint. But corporate America has no First Amendment to direct it against news selectivity or bias towards corporate culture and agenda. As long as they "sell" and make more money the media commercial owners have no interest in ethics or morality. "Meanwhile" wrote Ben H. Bagdikian, "the familiar broadcast twins, sex and violence have maintained their apparently unchangeable hold on American parents, educators, and the Surgeon-General of the United States, who has shown that TV violence increases real violence in society..... At issue is not just financial statistic.... At issue is the possession of power to surround almost every man, woman, and child in the country with controlled images and words, to socialize

each new generation of Americans, to alter the political agenda of the country". Billy Graham's message came from the Bible. The bible of the media is materialism and money. The pillars are crime, sex and consumerism. And this cultural pollution is what the media globalization is exporting to the world. And the world is brainstormed to buy it and love it.

"This is a government of the people, by the people, and for the people no longer. It is a government of corporations, by corporations, and for corporations".

U.S President Rutherford B. Hays

"...American democracy is in much deeper trouble than most people wish to acknowledge. Behind the reassuring facade, the regular election contests and so forth, the substantive meaning of self-government has been hollowed out... At the highest levels of government, the power to decide things has instead gravitated from the many to the few, just as ordinary citizens suspect. Instead of popular will, the government now responds more often to narrow webs of power - the interests of major economic organizations and concentrated wealth and the influential elites surrounding them...The rich and

complicated diversity of the nation is reduced to a lumpish commodity called 'public opinion' that is easily manipulated by the slogans and imagery of mass communications."

William Greider  
*Who Will Tell the People*  
The New York Times Bestseller

## *Chapter 17* **DECISION-MAKING IN MECHANICAL DEMOCRACY** **The MMM & The BBB Syndromes**

The American democracy as it functions to-day has been stripped from substance. It became a mechanical process that was "hollowed-out." The mechanical part of holding elections on national, state, and city levels remained in tact. These elections, however, became ruled by new games and gimmicks so that they lost their meanings and intentions. The ultimate controlling factor became one dollar one vote, not one person one vote. Most candidates have to become a part or aligned to the holders of the power structure of the country even if they are a minority. Candidates must be willing to work for pre-prepared agendas tailored to serve the minority 1% , the holders of wealth and power no matter what these issues may be. And candidates will then be marketed by the owners of power and money not on issues but on perceived images that will sell. Once in office, elected officials become a part of a well-controlled system that will ensure that all players in that system, elected or not, are playing their designated part. The power and money holders oversee and control the management of that system to achieve their objective in a very efficient and professional way. Those elected in the bureaucracy who may decide to do it their way" on any major issue, may suddenly find out they may lose their offices because they committed a "sin". A "sin" may always be found. It may be that they "bugged" others (including themselves as Nixon did), or they allegedly had an affair with a young intern inside an oval office. A black file in a locked closet is always there waiting for the right moment.

In most cases people are sinners by nature. Sins of the elected officials are always part of their job descriptions. Those who made these elected officials through power and money can break them when needed through the same power of money and media. God forgives. But the wealth and power holders don't. They may forget as long as forgetting further their goals.

The elected administration officials and legislators may be given tactical freedom on the best way to implement a fixed agenda. Agenda policy items are strategic items to be implemented not to be changed. Other systems are in place to see them through the mechanical decision-making process and everybody can play that game according to its rules as long as the end result is achieved. Four hundred thousand Americans die each year from smoking-related illnesses. And after almost 35 years since the Surgeon-General considered that sufficient evidence existed to consider smoking lethal and deadly, all attempts to regulate tobacco by the Federal Government failed. The federal bureaucracy was unwilling and or incapable of tackling big tobacco. ".....in what amounted to a premeditated

conspiracy to disinform the American people, (big tobacco) continued to deny what they and their scientists, according to a critical mass of internal documents unearthed during the past decade, knew to be true about the addictive and fatal nature of their product” reported TIME, June 30, 1997.

“Americans have prematurely lost 4 million collective years of life annually in our worst, if routinely accepted, public health scandal.” Over 13 million Americans were murdered by smoking since it was known to be a deadly product and the Washington mechanical democracy accommodated this holocaust. Jeffrey Harris, economics professor at M.I.T., estimates that tobacco spends about \$5 billion annually on advertising and promotion, an amount that is near the GNP of a country like Jordan. Much of this money was directed at teen-agers to induce them into the habit of smoking. But it was not really the elected officials of the Federal Government that got some concessions from the tobacco industry. It was a decision by the tobacco companies themselves that public awareness and individual cases started to cloud the financial picture of the tobacco companies. Also, tobacco companies wanted to ensure immunity from future class actions that were increasing their future financial risks. The Washington mechanical democracy continued with business-as-usual for the tobacco industry, had it not been for individual cases and some States’ Attorney-Generals. The settlement figures appeared staggering: big tobacco will pay \$368.5 billion in settlement:

- \$308 billion in compensatory damages settlement to 17 class actions & states to recover medical expenses.
- \$60 billion in punitive damages.
- \$500 million to finance anti-tobacco advertising.

A tribal tradition in some parts of the world allows the payment of compensation money for a loss of life, specially if such loss was not premeditated. Some mused that the American Federal Government is reverting to tribal rules of justice to resolve the killings of millions. But, they went on, the tobacco industry ended paying dearly. But, it was soon revealed that the tobacco industry was trying to use the same mechanical democracy systems of the Federal Government to make more money from the settlement than the sum of the settlement itself. On August 18, 1997, USA TODAY carried an Associated Press Article by Luran Neergaard which indicated that “an internal Treasury Department audit says cigarette makers could profit handsomely from the deal.” The article added “The Treasury audit concludes that tobacco companies will raise cigarette prices just enough - an estimated 62 cents a pack - to boost their revenues and more than offset the \$368 billion they’ve agreed to pay over 25 years. And revenues will go up, the audit predicts, even though the companies sales volume will likely suffer as about 7% of U.S smokers quit rather than pay more per pack..... Meanwhile, the Washington post reported Sunday that House Speaker Newt Gingrich, R-Ga., and Senate Majority Leader Trent Lott, R-Miss., insisted on a provision in the tax cut bill, which Clinton went along with, that would give cigarette makers a \$50 billion credit against the sum they had pledged to settle the suits.” Here again, the elected members of the mechanical democracy who colluded for a third of a century are at it again to make the settlement proposal a profitable venture for the tobacco industry.

The tobacco deal between the State Attorney-Generals and tobacco industry was signed June 20,1997. It followed the following steps afterwards:

July 29,1997: The senate commerce committee involved itself in the issue and held its first hearing on the settlement from Surgeon General C. Everett Knop and the former head of the food and drug association David Kessler and four States’ Attorney-Generals.

February 24,1998: The committee’s fourth hearing was held from the chairmen of the five big tobacco companies.

- April 1,1998: considering facts only and without any pressures of politics and lobbyists, the senate commerce committee approved a tobacco bill drafted by the committee’s chairman John McCain. The vote was 19 against 1 only.
- April 8,1998: Steve Goldstine, CEO of RJR Nabisco announced that the cigarette makers would not agree to that bill with its price tag of \$516 billion and the FDA to have control on nicotine.

The tobacco industry hired 200 lobbyists and staged a \$40 million advertisement blitz that combined money power with the media to market mis-information about the bill and portray it not as a health issue but as an evil big government reverting to tax-and-spend again. On June 17,1998 the MMM (Money, Media, Marketing) won. The senate voted to withdraw the tobacco bill from the

senate floor. Many of the same senators who voted for the bill only 6 weeks earlier now voted against the bill!

The BBB syndrome (Bullshit Baffles Brain Power) baffled the brain power of even senator John McCain constituents. He received, as a result of the tobacco companies misinformation blitz over 10,000 letters against the bill, which only 6 weeks earlier had the approval of two-thirds of the Americans and 19 out of 20 senators of the commerce committee!

Senator McCain delivered an impassioned speech on the senate floor before the senate voted against the bill. He asked if the senators "believe an industry should be allowed to lie...and get away with it." The senators vote answered him: yes they can! He said the bill was not about taxes but "whether we're going to allow the death of 418,000 Americans a year who die early from tobacco-related disease and do nothing." The senators vote answered McCain, "Yes, let 418,000 Americans die because those dead cannot keep us in office but big tobacco can." McCain said that the vote was about "whether we're going to have the will to serve the public interests or the special interests." Of course, the special interests, the vote told McCain. He who has the money rule. That is the golden rule. And that is exactly what one dollar one vote and not one person one vote can only give. That's mechanical democracy.

McCain's colleagues at the senate were not moved. Probably Nancy Gibbs (TIME, June 29, 1998,p.38) was right after all. She wrote "...the U.S Senate includes some members the others wish had never got in. Too pushy. Always wanting to change things, even bedrock tradition, like due respect for the marriage of money and power. So when the deeply scared, highly disruptive Republican John McCain stood on the senate floor...., stared down his colleagues and accused them of honoring their debts to Big Tobacco over their obligations to (those who can't care for themselves in this society, and that includes our children) the few G.O.P. statesmen present sat silent while democrats across the aisle stood and applauded. McCain walked out of the chamber."

After the vote, politician Clinton said, "politics stopped this thing cold. I think the American people have a reason to be sad tonight." But what's new. Didn't American President R. B. Hays say long time ago: "This is a government of the people, by the people, and for the people no longer. It is a government of corporations, by corporations and for corporations."

Time could not change this bedrock tradition of marriage between money and power. The only difference between 19<sup>th</sup>-century legislators and now may be that money exchanged hands for legislation on cash and carry basis then. It is now paid in advance during campaigns and the legislation will be collected later. Therefore the comments of Clinton's Chief-of-Staff Erskine Bowles that this was what he believed was Washington at its worst is not true. This is Washington business - as- usual.

Why is it then that those elected officials have to act this way?. And the obvious answer is: they feel accountable to those corporations and moneyed interests that assisted them to get elected. They don't feel accountable to those who elected them, as they learned that they can be manipulated by the power and money brokers. President Bush asked the voters to read his lips....no more taxes. But more taxes were enacted. Election promises to voters are made to be broken. Pre-election pledges to the power and money brokers are made to be kept. And that is mechanical democracy.

The one percent wealth holders own the power structure of the country through the skillful blending of the 3 m's - Money, Media and Marketing. And the result will be a state-of-the art campaign to market the product. This could be a person for an elected office, or an issue. An image is created. The MMM will produce a BBB effect -B-S-Baffles Brain power. Increasingly, highly-elected offices including the office of U.S. President are becoming ceremonial like the office of the U.K. Monarch. The president's job is getting to be more and more as a spokesman for the one percent power structure owners just like calling a Suharto to pressure him to accept a deadly IMF medicine, or calling the IMF to pressure its official to extend loans to the sinking black holes of the corrupt structurally-flawed Russian economy. As money is the measure of value in the materialistic societies, the pay for the job of a U.S president may be less than few percent of what a corporate CEO may be paid in America. For few hundred thousand dollars a year, the liabilities of the job are far greater than its financial benefits. Bill Clinton may collect \$2 or 3 million for his two-term presidency but his legal bills are estimated to exceed more than \$8 million by the time he leaves office. The Paula Jones, Monica Lewinsky, Kenneth Starr and White Water are the fringe benefits.

Non-suspecting uninformed voters trying to make ends meet and worried about being down-sized to-morrow are taken by these marketing blitzes. They go and elect images created by the image makers, not the real people. Since Russian "democracy" is being assisted by American democracy and its methods, it will provide a good example on how elections are planned and conducted. What makes it even a better example is the fact that Russian capitalism did not acquire the experience of the American capitalism to package and conceal itself. The details below were disclosed by TIME, July 15, 1996.

Felix Braynin, a Russian Jewish immigrant to San Francisco in 1979. He is now a rich management consultant and decided to reside in Moscow utilizing his knowledge of Russia and advising Americans with interest to invest in Russia. He was alarmed that with Russian elections only a few months away, an election poll showed only 6% of Russian voters were in favor of Yeltsin as the next president of Russia. There were so many reasons why Russians were disgusted from Yeltsin and his rule. His promised economic "reforms" enriched only the few and a 1% class of wealth holders was created. Meanwhile, millions of Russians were without jobs and tens of millions who had jobs were not paid their salaries, including the Armed Forces. Old pensioners were without their pensions. The government was authoritarian and corrupt. Mafia and crime were on the increase and the war in Chechnya was a disaster. How worse things could be? What distressed 48-year-old Braynin was a communist come-back at the Duma - Russia's lower house of parliament. If a communist candidate ran then, he would have won the presidential election. An immigrant is normally keen at observing the mechanics of American election. Braynin must have remembered how an unknown young governor of one of the poorest states of America was adopted by the power brokers of America, and how from national obscurity a national campaign was managed so he defeated an incumbent president, who only a year earlier had the highest ratings in American history! Braynin thought that Yeltsin can use some professional campaign assistance from American image makers. Braynin, just like the owners of American power had lots of interest in seeking the re-election of Yeltsin. So he discussed the subject with the Russian first deputy prime minister and received the OK in early February 1997. Two conditions were requested:

1. The Americans should operate secretly under cover, otherwise the communists may brand Yeltsin as an "American tool"; and
2. If the Americans find the election of Yeltsin as not possible, they should say so one month before election, so that election be postponed or cancelled.

Braynin called Fred Lowell in San Francisco. Lowell was a lawyer associated with Republicans in California. He in turn called Joe Shumate, a G.O.P political data analysis expert, and finally suggested a task force led by Shumate and George Gordan, a long time top strategist. They decided to add Richard Dresner, a New York campaign consultant who had access to Dick Morris then connected very well with the Clinton administration. Both Morris and Dresner worked together in the late 70's and early 80's and got Bill Clinton elected Governor of Arkansas. Time magazine reported that at least on two occasions Morris assisted with the Clinton administration in aiding the re-election efforts of Yeltsin. Two young men were added to the American Task Force (ATF): Braynin son Alan and Steven Moore, a Washington public relations specialist. Yeltsin daughter Tatiana Dyachenko was assigned to the ATF also.

The task force resided at the President Hotel and worked from room 1120. Tatiana worked from room 1119. The ATF decided on its plan:

- Train Russian Campaign Staff on American methods of polling, message development, voter contact and campaign organization.
- "Truth squads" to be formed to follow the communist candidate and needle him so he loses his temper. "Lies" may be used in these "truth squads"!
- They should conduct a poll to see where Yeltsin stands. The study showed that people think even Stalin had more positives than Yeltsin. Sixty percent of the electorate believed that Yeltsin was corrupt. Sixty-five believed he destroyed the economy, and that with Yeltsin things will never get better. Yeltsin was found simply having no positives to be used in the campaign.
- Then, the ATF decided to use negative campaigning. Alexi Levinson was the ATF focus-groups co-ordinator and decided to attack the communist candidate by attacking the most hated things about the communist era. It was defined as long lines, scarce food & people's fear from a civil war. The focus group decided to use these issues. The media experts directed the state TV on

how to focus the camera and how to handle the presidential news as an overall part of the campaign plan.

- The ATF decided after study analysis that the communist candidate will not get more than the core of the communist vote. The greatest threat they decided would be the emergence of a third force, and decided to get Lebed to their side at all costs. To ensure other candidates do not unify they decided to pump their egos in a way they will never join hand in hand.
- But one of the most interesting points that show “mechanical democracy” hollowness from real issues was the ATF decision that Yeltsin has no real issues he can successfully use in his campaign. They decided he should never accept any debate with his communist opponent because Yeltsin will lose such a debate.
- They decided that a Clinton - Yeltsin summit a couple of months before election will improve Yeltsin image, especially if he shows that he is standing for Russia against the west.

The Russian campaign staff were really impressed specially by the use of computers and electronics to measure the reaction of audience to messages or speeches of Yeltsin or other candidates. Perception analyzers were used that measure the interest and approval of an audience. When Russian staff thought a Yeltsin address was effective and the ATF thought otherwise they assembled 40 Russians and wired them to these instruments. The reaction of the 40 Russians was electronically transferred into charts. It was unfavorable, and the Russian campaign staff were really impressed. They followed the ATF directions faithfully thereafter.

The poll results started to show improvement as the campaign progressed according to the ATF plan. When the Yeltsin aides asked in May 5,1996 if Yeltsin can win or should they cancel the elections, the ATF answered that Yeltsin now will have a sure victory and they predicted that he may have a 5-point lead over his communist opponent. The election results was 35% for Yeltsin against 32% to his communist opponent Gennadi Zyuganov.

The issues man, Zyuganov, started the campaign with 32% of the vote and ended the campaign with 32%. He had no image makers. Yeltsin, the real, got 6% of the votes at the start of the campaign and ended with 35% of the votes after the image makers created a new image. The image of Yeltsin, not the real Yeltsin was elected. Likewise, it is the image of Clinton, not the real Clinton, was elected. Owners of the wealth and power can create good images when they want, and they can equally distort the image anytime they chose. Office holders are indebted to them, not to people for their jobs, and they are therefore accountable to them not to the people. The campaign of Yeltsin was financed by the new class of 1 percent power and wealth holders of Russia. Among them was 37-year-old Vladimir Potanin. Potanin controls an empire of banks, media and industries whose sales volume equal nearly 10% of Russia's gross domestic product. The new class of Potanin and a handful of other new Russian “businessmen” now control half of the total Russian industrial wealth that was built by Russian labor for over seventy years. They got that wealth through corrupt schemes. One such scheme was the “loans-for-shares” at “steal” prices. Potanin got himself a job in the post-election government as a cabinet minister long enough to ensure that companies default on their loan payments and that he acquires the shares. May be Russian “democracy” did not develop its packaging good enough as to call the lie-squads as truth squads. But they are learning. Image-making is now part of the Russian democracy. And a one percent class has been created.

We have discussed so far how people are assisted to elected offices by the power of money, media and marketing. Issues and information can be slanted in similar ways using the same power components. The tax legislation that kept shifting money from the rich to the poor apparently is not considered sufficient. Some Houston businessmen and company executives formed “Americans For Fair Taxation (AFT). Among them Leo Lin Beck (Jr) a former chairman of the Federal Reserve Bank of Dallas, now owner of an influential construction company. Leading executives from Houston, such as Enron CEO, and other parts of the country are joining in. The taxation they are proposing will further reduce the burden of taxes on the high-income group. ATF chief executive was quoted in BusinessWeek, December 29,1997, p.36, “We’re going at it as if it were a business project that’s market-driven. We have tested it, refined it, and now the task is to roll it out to see if it resonates.” The group has already spent nearly \$4 million on academic and market research. Here again an image will be created and marketed. But not many can spend \$4 million for market research of an image. Money, Media and Marketing..... They baffle the brainpower.

We have seen so far how people get elected. We will discuss now the decision-making mechanism in the American mechanical democracy that assures the power and wealth holders of the legislations and laws they desire. An "iron triangle" of three parties is normally involved in a Washington decision-making process.

- Congressional Subcommittee
- Lobbies
- Government Bureau Chiefs

Representatives from these three will make up a subsystem that will decide on an issue. In one subsystem normally about 100 people are involved. By simple calculation we will find that lobbies represent the heaviest representation.

*Congressional subcommittee* congressmen who participate in a subsystem have limitations on their time and knowledge of issues. They depend for information, judgment and action on staff members who are normally politically connected to moneyed interests and their lobbies. So within the congressional subcommittee, staff members control communications between congressmen and the outside. They draft committee reports and inject views, being committee agents, in a way that makes their influence far exceed their formal role. On important issues, lobbyists get their men as staff members. Where as 2 to 5 elected congressmen are involved in a congressional subcommittee about 20 non-elected staff members are involved.

*Lobbies* representing interest groups are formally represented and part of a subsystem. The influence of a lobby is directly proportional to its financial resources, the bigger of course the better. Also, the organizational capabilities and their connections to appoint staff members to serve their issues with congressional subcommittee plays a great role in securing the decision as desired by the lobbyists.

Lobbies and interest groups inject their people in government also. HBS case 9-381-922 describes this, "In that fashion policy experts from academia or business often move into government and vice versa. This movement together with the fluidity of issue networks both inside and outside government, often leads to the appointment at a very high level in government of people who first established their reputations as specialists in particular areas of public policy. Both political parties use these outside advisors as federal appointees and in the process create a new political bureaucracy which co-exists alongside the permanent one in government."

By simple calculations, up to 80 people out of a 100 involved in a decision-making subsystem are not elected people that can be appointed directly or indirectly by moneyed interests. The remaining people, include the 2-5 congressmen involved, owe their jobs to those who gave them their jobs. Political contributions are advanced payment for favor. Therefore, the whole system is owned by moneyed interests and this explains why Washington can remain silent for more than 30 years after scientific evidence by the Surgeon-General revealed the lethal effect of cigarettes, even though some 400000 American citizens get murdered every year in the process of their silence. And this is why the Tobacco Lobby thought to even make a profit out of a settlement supposedly compensating for damages of their business.

Both Parties, Republicans and Democrats, are now the machines for mechanical democracy. Issues are decided by above parties. The mechanics of platforms and political theatrics are reserved for them. They are political tribes. Both parties do not play a real role as mediators between the electors and the elected, nor in the formulation of policies. They act as a mail drop for contributions at election times. If party membership is measured by those who pay their membership dues regularly then the National Rifle Association with 2.5 million dues - paying members is bigger than both parties combined. It is really alarming that such is the party system in a democratic country of 250 million people. The Democratic party that was supposed to represent the poor is owned and managed by Lobbyist Lawyers and firms. William Greider ("Who Will Tell The People," p.258) lists the lobbyists and lawyers that have the greatest influence within the democratic party and as lobbyists they represent most of the country's leading banks and brokerage firms.

- Bob Strauss: Drexel Burnham, Morgan Stanley, Texas S&Ls.
- Chuck Manatt: California S&L, the California Bankers Association, First Bank System.

- J. D. Williams: First Boston.
- Richard Moe: Morgan Guaranty.
- Berl Bernhard: Investment Company Institute.
- Joe Califano: Bankers Trust, Fannie Mae.
- Stuart Eizenstat: Chase Manhattan, Association of Bank Holding Companies.
- O'Connor and Hannon: Merrill Lynch, Paine Webber, Securities Industries Associations.
- Tommy Boggs: American Express, Bear Stearns, Chicago Board Options Exchange, Paine Webber.

Robert Strauss, a Democratic Party Chairman in the mid-1970, was called Mr. Democrat. He lobbied both parties to pass the tax laws that certainly did not favor the poor and he was the Republican Administration Ambassador to Moscow when the Soviet Union was disintegrating. Vernon Jordan, a close friend of President Clinton, works in Strauss's firm. Some one hundred lobbyists work for Jordan who is on the board of several transnational corporations.

The decision-making process at the White House is more often than not, managed by non-elected non-democratic loving officials. The decision to invade Cambodia in April 1970 may prove the point. Not only a war was staged in another country but deliberate lies were made to misguide and mislead the American people who were paying the financial and human costs. Walter Isaacson, in his book "Kissinger A Biography" wrote: "In the history of civilization, few countries have ever endured a greater hell than the holocaust that engulfed Cambodia in the 1970's. The blame falls foremost on the geocidal Khmer Rouge communists, who took power in 1975. But the creation of the killing fields had many causes, and there was more than enough blood to stain many hands. The American share of the blame, and Kissinger's, arises not from insidious intent, but from a moral callousness that placed America's perceived needs in Vietnam above what would be best for a vulnerable neighboring nation."

- Kissinger advised in March 1969 the "secret bombing" of Cambodia hoping to take out the command center of communist operations in south Vietnam known as COSVN. After 1045 sorties unloading 108823 tons of bombs the mission failed.
- Then Sihanouk was overthrown by his prime minister Lon Nol. There were suspicions at least by Sihanouk, that the coup was CIA-inspired.
- Lon Nol ordered North Vietnamese and Viet Cong to leave Cambodia immediately.
- This caused the Vietnamese communists to stage an attack on Cambodian government forces which was ill-prepared and ill-equipped. Government forces were transported to the battle fields by Pepsi Cola trucks!
- Cambodia requested military help and Kissinger favored giving such assistance. Defense Secretary Laird favored fixed monthly rate of American troops withdrawal from Viet Nam and not further involvement. Secretary of State Rogers believed diplomatic solution is the answer for the whole Viet Nam conflict.
- Kissinger discussed with the joint Chief-of-Staff military plans in Vietnam and Cambodia plus future troops withdrawal from Vietnam, but specifically asking him to keep the discussion secret from his Defense Secretary Laird.
- Friday, April 24, 1970. Kissinger invited his staff to his office for a brainstorming session on Cambodia's invasion, assuming that South Vietnamese forces will be used. He did not mention in the meeting about the possibility of using American forces, even though he did so to each individually before the meeting.
- All participants voiced objection to the invasion whether by Vietnamese or other forces as it will eventually mean American involvement.
- After the meeting Kissinger advised Nixon for an invasion of Cambodia. He recommended the subject be disclosed in the National Security Council meeting of Sunday 26th April 1970 and advised Nixon to be prepared for the possibility of Laird and Rogers opposing the invasion.
- The meeting was held on schedule, yet Nixon discussed options not decisions, but he signed the invasion order as presented to him by Kissinger. When Rogers and Laird received their copy they couldn't believe it. They both asked for a meeting with Nixon who stood by his and Kissinger's decision.

- The invasion of another country was taken without securing congressional approval, and with the disapproval of the Defense and State Secretaries and the staff of the National Security Council, who resigned in protest (Watts, Lake, Morris and Lynn. Halperin and Davidson already resigned). Their phones were bugged by the FBI upon the request of the White House.
- On May 1, over 100,000 Americans protested in front of the White House. On May 4, students rioted at campuses and 4 students were shot dead by the national guard.

A war on a sovereign nation was waged without the constitutional pre-requisites of going to war, without congressional approval, with the disapproval of the Secretaries of State and Defense and even without their knowledge, against the advice of the National Security Advisor's Staff, and against the will of the American people. This cannot happen in a real democracy. It could only happen in a mechanical democracy. A decision of such grave consequences that caused a holocaust according to Isaacson, was taken in such an undemocratic manner can speak a lot about the decision-making process in the Administration of a democracy that maintained form but was hollowed of any democratic substance.

"The American system depended upon deeper transactions than elections" wrote William Greider. "It provided another mechanism of government, beyond the reach of the popular vote, one that managed the continuing conflicts of democratic capitalism, the natural tension between those two words, democracy, and capitalism. It was part of the national government, yet deliberately set outside the electoral process, insulated from the control of mere politicians. Indeed, it had the power to resist the random passions of popular will and even to discipline the society at large. This other structure of American governance coexisted with the elected one, shared power with congress and the president, and collaborated with them. In some cases, it opposed them and thwarted them." (*Secrets of The Temple*, p.11)

The democratic promise was transformed and then institutionalized as a technocratic reality. As the early decades of the 20th century produced a new class of professionals from management, academia, and business, this new class shared the one percent class in that it maintained a full stomach and had satisfied all its basic needs comfortably well. According to Maslow Rule, after satisfaction of basic needs people move to the secondary needs: the psychological ones. Self-actualization sits at the top of these needs, and psychological needs are many things to many people. But what both the one percent class and the new technocrat class shared in common was their satisfaction of basic needs and their entry to the world of abstraction. The one percent class enjoyed the power of money even in its purest abstraction form as an account number or an electronic impulse of a computer. The technocrats enjoyed the power of office. They both forged both powers to create a mechanical democracy. They both agreed on who calls the shots and who really rules. He who has the money rules.

"We have long thought of the world as divided into rich and poor countries. As economic globalization progresses, we find growing islands of great wealth in poor countries and growing seas of poverties in rich countries... From our vantage point in Asia we have watched in horror as the same policies the United States has been advocating for the world have created a third world within its own borders as revealed in its growing gap between rich and poor... New York, a major center of economic power manifesting all the qualities of a contemporary third world city - including wandering armies of the homeless juxtaposed with the extravagant lifestyles of the rich and famous, incapacitated government and indiscriminate violence...."

Dr. David C. Korten  
*When the Corporations Rule the World*

"The share of the top 1 percent of financial wealth holders (in U.S.A) increased (between 1983-1989) ... to 48 percent of total financial wealth (yet). In 1989, for example, 35 percent of nonwhite families reported zero or negative networth."

Dr. Edward N. Wolff, *Top Heavy*

## Chapter 18

### RICHMAN POORMAN - U.S.A & THE WORLD

I was flying at 33,000 feet on my way from Europe to Chicago when I noted a few lines in the newspaper about a study on the rising inequality of wealth in the United States. The study was released by Edward N. Wolff, a professor of economics at New York University. I always knew that God created people as equal when it comes to their rights and obligations, but I also knew that, in capitalism wealth inequality was part of the system. But the figure that only one percent of Americans owned 48 percent of the total wealth in America was beyond my imagination. Probably an error somewhere I assumed, but I decided to explore the matter further. The study which was released as a Twentieth-Century Fund Report, was expanded and published as a book "TOP HEAVY". I presumed the book took its name from Barbara Ehrenreich at Wolff's book front page that "a democratic society cannot survive the awesome concentration of wealth that has occurred in America since the 1970's. Things that get too top-heavy tend to collapse." I looked at the back cover of the book and noted that "it would take a city of almost a quarter of a million average American families to match the net worth of Bill Gates." I said to myself, "Wrong, with Microsoft's shares doubling between 1995 and 1998 it will now take a city of half a million average American families to match Bill Gates net worth." I thought that this college drop-out who voluntarily left Harvard to start his company was a smart fellow and certainly deserved to be rich. I only wonder now if he or anybody needs or deserves to be as rich as a whole city; after one becomes worth a "block" does one really need to be worth "a city"? Especially that may include lots of homeless!

The following data is from *TOP HEAVY*:

- In 1992 the financial wealth in the United States is distributed, thus:

The top 1 percent	45.6 %
The next top 19 percent	46.7 %
The remaining 80 percent	7.8%
- In 1992 the top 1 percent of Americans held:
  - percent of all Stocks in the U.S.A
  - percent of all Bonds in the U.S.A
  - percent of all Trusts in the U.S.A
  - percent of all Business equity in the U.S.A
  - percent of all non - Home Real Estate in the U.S.A
- In 1992 the next richest 19% of Americans held:
  - percent of all Stocks
  - percent of all Bonds
  - percent of all Trusts
  - percent of all Business Equity
  - percent of all Non-Home Real Estate
- While 80 percent of the remaining Americans held in 1992:
  - percent of all Stocks
  - percent of all Bonds
  - percent of all Trusts
  - percent of all Business Equity
  - percent of all Non-Home Real Estate
- In the land of opportunity according to 1989 figures more than one-third of the non-white population had either a zero net worth or even a negative networth meaning that if they sell all their assets it will be less than what they owe.
- The whites are somewhat better, but still 12 percent of the white population fell in the same category of zero or negative networth.

- Looking at the charts it is noted that the recent increases in wealth inequality were comparable to the period of the 1920's that preceded the Great Depression.
- The reversal in the share of wealth owned by the top 1 percent of household from downward to sharp upward trend co-incident with the delinking of money from real value after the adoption of monetarism and the cancellation of the Bretton Woods gold-backing of the dollar. That's when global financiers as pointed elsewhere in this book, became capable of creating new wealth through the creation of their own financial instruments.
- It is also noted that the inequality increases and the tax and other laws that made it possible, were started in a Republican administration, but they even took momentum in the Democratic Carter Administration, as financiers agenda is equally implemented by both democrats or republicans.

One wondered if this inequality was only in United States capitalism or it was a feature of Anglo-American capitalism. It is noted that the British wealth inequality was even worse than that of the United States in the early part of the 20th century. Wealth inequality in the U.K continued to be higher than the United States. The top 1 percent share of marketable net worth in both economies became equal in the mid-1960's. But in 1990, the share of the top 1% in the United States became almost double that of the U.K .

The Great Depression welfare programs and the cold war imperatives decreased wealth inequality in the United States. However, starting from the 1970's, but taking great force during Reaganomics, inequality widened, as literally, the rich got richer and the poor got poorer.

Whereas the average real income of the top 1 percent of U.S families increased by 78% between 1977-1989 only, the average hourly wage in 1996 constant dollars was about 8% lower than the 1973 level. Classical economists theorize about the bad side effects of higher wages on their economy for inflation. To them, the burden of adjusting for inflation falls on the majority of people but not the one percent class. It is estimated that for wages to reach their 1973 level it will be within the first years of the 21st century. According to analysis of Bureau of Labor Statistics data by Princeton University economist Henry S. Farber (BW, September 1,1997) labor holding jobs for one or more years are losing jobs at higher rate than recorded since the Bureau was started in 1981. "Downsized" employees find jobs that earn 14% less in the new jobs compared to the old jobs. Commerce department data shows that while corporate profits dramatically increased in the 1990's, employees compensation (wages, salaries, and benefits) declined as a percentage of the national income. Within the period between 1980-1988 the social security revenues mostly collected from the low-income groups increased by 23% as a portion of the federal revenue. Within that same period corporate income tax declined by 23%. Therefore, not only did the social security paid for itself but it was giving the federal budgets surpluses that amounted to \$74 billion in 1991, \$126 billion in 1995 and is expected to give a surplus of \$299 billion in the year 2000. Of \$87 billion of unpaid taxes in 1981 for instance, salaried and low income people amounted for less than 2% - whereas 17 heavy-set taxpayers owed the federal government more than the whole salaried and low income people.

The data in Top Heavy goes as far back as the 1920's. One wondered how was it before then. Looking at Encyclopedia Britannica, 1973-74, vol 18, p.964, one can conclude that this 1 percent class existed much earlier than the 20th century. "Typically, the wealthiest 1 percent of urban citizens owned approximately one-half the wealth of the great cities of the Northeast, while the great bulk of their populations were worth little or nothing .... America by 1850 had more millionaires than all of Europe." So, the business of the one percent class is an integral inseparable part of the Anglo-American capitalism, even before the robber baron capitalists, and before packaged capitalism that developed with the industrial revolution.

Inequality now is among people of every nation that adopts the Anglo-American packaged brand of capitalism. Every such country has a one percent class that enjoys the biggest portion of that nations wealth. Also, this inequality is as severe on global basis.

UNDP Human Development Report 1992 reports that:

Richest	20 %	own	82.7 %	of the world's income
Next	20 %	own	11.7 %	of the world's income
Next	20 %	own	2.3 %	of the world's income
Next	20 %	own	1.9 %	of the world's income
Poorest	20 %	own	1.4 %	of the world's income

Three hundred fifty-eight billionaires enjoy a net worth that equals that of the poorest 2.5 billion people. The richest four hundred people in America enjoyed a combined net worth of \$328 billion - more than the combined 1991 gross national product of a billion people in the Indian continent.

Transnational elite of one country identify their interests with transnational elites of another country and therefore their real interests and loyalties lay outside their national borders. David C. Korten thought that the elite (one percent class) in a country for instance as Pakistan "exemplifies the experience of elites living in enclaves detached from local roots....On two of my visits to Pakistan, I was the guest of some of the country's most successful businessmen. Widely traveled and graduates of the best British and American Universities...they had little knowledge of or interest in what was happening in their own country beyond the borders of their enclave cities. It was as though the rest of Pakistan were an inconsequential foreign country unworthy of notice or mention. They were almost completely detached from any sense of national interest."

In down-sized America even the pay system has changed to a newer one that "downsize" wages, cut-down raises and subcontract a good part of the work force to outsourcing. While volume of sales and profits of the 500 largest American corporations soared dramatically in the 1990's their total employment went down, not up. In the decade of the eighties, pay stagnated because of slow productivity. In that decade while college - graduate employees maintained a slight increase, the majority of workers (80%) lost on their income. But now, even with higher productivity, the benefits go to the shareholders of corporations not to employees. Actually the one percent class economists already justify this as healthier to the economy as it increases the U.S competitiveness in global markets. And companies now shift whole or part of their operations to cheaper markets regardless of national loyalties or borders. Since 1983, a study by the Brookings Institutions found that prices of products to consumers were increased by 4% a year, where as prices for inputs to these products only increased at 3.3% annually. The study expected the "terms of trade will go heavily against labor in the next 5 to 10 years."

The average price of an American car went up by more than 70% in 10 years against 40% increase of income. The majority of the large companies dismantled the traditional pay system of annual increments, and it is now performance and behavior- related.

The problem is not in the United States only. It is worst in Western Europe where practically no new jobs were generated for decades now. In Sweden, and about the time of the introduction of Reaganomics in USA, and Thatcherism in the UK, the Volvo chairman in 1983, formed the "Roundtable of European Industries", that included European corporate giants such as Fiat, Nestle, Renault, Siemens, Olivetti & Philips. The purpose of this group was to define the role of the State more or less on the model defined for Reaganomics and Thatcherism. It appears that a coordinated well-managed global effort was in motion for global economization, deregulation and minimizing state "interventions" leaving "markets," i.e., corporations to rule. So, as a result, while the average Swedish grew poorer between 1978 and 1988, the richest 450 households doubled their assets. By 1992, 2% of the richest Swedish households owned 62% of the Stockholm stock exchange traded-shares value.

Market Capitalism and its twin, infofinancialsim, will always produce by inheritance rich man poor man. It will always produce few winners and many losers, and it will always remain a "winners have all" society as long as regulatory forces to tame it and control it are absent. Looking at the wealth inequality curve in the twentieth-century it can be noted that inequality increased in direct proportions with deregulation. Since many of the New Deal regulations are being eroded, the curve of wealth inequality is back to pre-1929 days!

If misery loves company, it is having lots of company throughout the world. About 100 million Indonesians will join the poverty line by the end of 1998. Over 70% of Russians are at or below the poverty line. The high levels of unemployment in Europe is not decreasing. Issue of (*TIME*, February 2, 1998) described the episode of 49 jobless protesters invading one of Paris trendy restaurants in a scene coming from the Great Depression era or a comedy starring Charlie Chaplin. But the episode was true and it occurred on January 17,1998. The jobless protesters refused to take sandwiches in the staff room and insisted on ordering steaks and oysters in the dining room. After dining, they left for Hotel Lut'ecia and they slept on the hotel lounge overnight. This was part of a

day-long demonstration by the unemployed in Paris. The demonstrators invaded prime minister Lionel Jospin party headquarters the socialist party. By then, six weeks of strikes and take-over of public buildings by the unemployed throughout France is cornering the French politicians who were implementing the new prescriptions of financiers that included deregulation and austerity measures and reduction of benefits.

These measures are at a time official unemployment figures are at 14.4%. "Even that measure understates the case by a country mile," said Time's article. "As opinion polls published last week showed, the scourge cuts so wide and deep across French society, and claims so many secondary victims, that the much-discussed cleavage between job-holders and jobless turns out to be a myth. Altogether 78% of people questioned said that some one in their circle of family and friends was without work, and 44% said that some one in their immediate family was unemployed. Nearly half of all respondents vouched that they had given or were now giving financial assistance to such family members, and one-third feared for their own jobs in the coming months."

"With adult unemployment in the cite nearly double the national average," continued TIME, "and unemployment approaching 50% for those under the age of 25 jobs are clearly the key."

The December 1997 figures about Europe's biggest economy of Germany which is the third largest in the world showed a record unemployment of 4.5 million people or 11.8%. The rate in West Germany was 9.9% where as in East Germany it was 19.8% even though the Federal Government was pouring \$83 billion dollars a year in rebuilding subsidies. This is occurring even though the German economy witnessed a 2.5% economic growth.

In the United States taxes and regulations that led to wealth inequality were enacted regardless of which party was in power. The most regressive tax bill since the 1920's was enacted in 1978 during a democratic administration of president Carter. The same principle of tax legislation that started with the Democrats was continued, but with more vigor, maintaining the same trend of shifting tax burdens from rich to poor. A 25 percent across -the- board reduction in taxes during Reagan's first year also resulted in more relief for the high income groups. The 1981 tax legislation on commercial real estate led to the glut of the 1980's in new office buildings. The new tax rules of depreciation were such that office buildings became economically feasible even at 50% occupancy rate. A year later, in 1982, financial legislation for commercial banks were loosened which led to the collapse of banks and builders alike, and it took a "silent" government intervention and a taxpayers bailout in hundred of billions of dollars to get out of it.

It was the democrats who first proposed to lower taxes on income from interests and dividends which was traditionally higher than labor-related earnings. Fifty-nine percent of those polled in 1990 by the Wall Street Journal were against such reduction where as 22 percent were for it. Why is it then we find, more often than not, legislation passed that are against what people in their majority desire? In many instances, such as the one just mentioned, those against such tax relief were about 3 times more than those for it. The same Wall Street Poll found that even 2/3 of the upper-income class polled thought the legislation improper! Perhaps the answer is because: elected politicians and office seekers are no more accountable to the people; they are accountable to those who make winning their offices possible.

The difference between democrats and republicans was cosmetic at best in the last quarter of the twentieth-century. Office seekers from both parties were normally horses belonging to the owners of money and power structures, so they are the winners which ever horse that may win. Presidents and high administration officials had to be approved by them and they must adopt their agenda before even becoming eligible to run as candidates to these offices.

As mentioned elsewhere, the trilateral commission is one venue for the one percent class for political leaders, financiers, selected academicians and business leaders to develop the political and economic agenda for whichever administration that may come, be it Democratic or Republican. The North American Free Trade Agreement (NAFTA) was a trilateral commission agenda that must go through regardless of "theatrics" and whether it was George Bush or Clinton as president of the United States. The political drive for NAFTA started during the Bush administration and it was passed during the Clinton administration. Few knew at the time that both Bush and Clinton were Trilateral commissioners and so were many of the senior administration members. That's why the tax agenda of a Carter, or a Reagan, or a Bush or a Clinton are hardly different from each other. It comes from the same source and it is a result of a consensus reached behind closed doors. Actors are

promoted on TV, and with the power of the 3 M's, get elected to implement these agendas. The majority of people affected by the implementation of such policies are outside this game. They are busy making ends meet. They are more worried about being "downsized" than reading fine prints of legislators.

“Corporations have been enthroned ... An era of corruption in high places will follow and the money power will endeavor to prolong its reign by working on the prejudices of the people .... until wealth is aggregated in a few hands .....and the Republic is destroyed”

American President Abraham Lincoln

“The Vistas of the Trilateral Commission can be understood as the ideological perspective representing the transnational outlook of the multinational corporation which seeks to subordinate territorial policies to non-territorial economic goals.”

Richard Falk, *The Yale Law Review* (1975)

The world’s now managed by Transnational Elites made of “businessmen, scholars, professional men, and public officials. The ties of these new elite cut across national traditions and their interests are more functional than national.”

Zbigniew Brzezinski, *Between Two Ages*

## *Chapter 19*

### **THE NEW WORLD ORDER: CORPORATE IMPERIALISM Transnational “Corporate” Nations & Pseudo Nation-States**

Much has been written and sometimes unfairly about the fabulous riches of some nations, specially those oil-producing countries of the Middle East. Yet few would believe that in 1997, one

family alone controlled the assets of corporations with annual sales of over \$100 billion (BW, October 20,1997, p.20), a figure that exceeded the combined GNP of the Kingdom of Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates. In the country of Sweden, with a population of 8.5 million people, the Wallenberg family lives and directs its corporate empire via Investor Holding Company - 41% owned by the Wallenbergs. This empire includes:

Sales	
Astra - Drugmaker	\$ 5 Billion
ABB - Power Equipment Co.	\$ 34 Billion
Electrolux - Home Appliance	\$ 14 Billion
Stora - Forest Products Co.	\$ 8 Billion
S-E Banken -(Revenue)	\$ 5.16 Billion
Incentive - Holding Company	\$ 2.4 Billion
Ericsson - Mobile Phones	\$ 16.0 Billion
Scania - Heavy Trucks	\$ 4.0 Billion
Saab Autos - Cars	\$ 2.6 Billion
Saab Aircraft - Fighter Jets	\$ 1.88 Billion
SAS - Scandinavian Airlines	\$ 4.60 Billion
SKF - Roller Bearings	\$ 4.43 Billion
Atlas Copco - Heavy Equipment	\$ 3.31 Billion

S-E Banken was founded by the Wallenbergs in 1860 and it was their main vehicle to create the above empire. Thus corporations are now bigger than nations, and the governments of nations became their convenient tool of indirect governance. The rise in power of transnational corporations is astronomical in the new world global order. National governments' power is declining and they are being captured by the transnational corporations and the global financial institutions. Such corporations have no human or national loyalty. Making more money, regardless of how impassionately, is their own loyalty.

As early as 1967 George Ball, a seasoned elite who served the Kennedy administration as an undersecretary of state and who was an investment banker - a director of Lehman Brothers Kuhn Loeb, said in a speech to the British National Committee of the International Chamber of Commerce in 1967 that "the political boundaries of nation-states are too narrow and constricted to define the scope and activities of modern business...." He went on to explain that manufacturing for local markets and exporting the surplus was becoming inefficient. The tools of production-capital, labor, raw materials, factories and marketing must be mobilized more efficiently- and "this in turn will be possible only when national boundaries no longer play a critical role in defining economic horizon....". This vision was part of a globalization vision on-going since WW2 or even earlier, when a Grand Area was seen as a core to a global economy. Free trade was being gradually created.

The six meetings of General Agreement on Tariffs and Trade (GATT) between 1947 and 1967 resulted in reduction of tariffs on all dutiable U.S. imports to 9.9 percent in 1970 (which was as high as 59.0 percent in 1932). David Rockefeller advocated the elimination of any restrictions on free trade and investment. In 1968 Forbes featured the "one world" vision of Nabisco's president Bickmore in which "Arabs and Americans, Latins and Scandinavians" will enthusiastically use the same product whether it was a coke, a Ritz Cracker or a Colgate. To promote consumption transnational marketing should create the needs for transnational products. Not only products but a life-style must be marketed, which means managing social changes to suit the promoted life-styles. This can only be accomplished by transforming societies into a culture with universal values and creating a global mass media system.

Once advances in computers, communications, and electronics created an information revolution a new era started. "In some respects," said Brzezinski "if 1945 was the beginning of the existing international system, 1973 marked the beginning of its end and hopefully the beginning of its renovation and adjustment." And indeed a new era started in 1973 that included many important events too important not to be co-ordinated including the increase of oil prices in this new economic order, and the formal creation of the Trilateral Commission. The history of the priority of the economic agenda of transnational corporations over national economic agenda has arrived.

The history of corporations date back to the 16th century. It was the crown that was in a position to grant the charter to corporations. It was a grant because an investor's liability for losses in a corporation was limited to the amount of his investment in it. Such a privilege was not extended to individuals. But the crown reserved its right to keep, give or withdraw corporate charters at its own discretion. Corporations were mostly, at the beginning, used to control the colonial economies. Well-known examples were the East India Company or the Hudson's Bay Company. Even many of the American colonies were chartered as corporations. The East India Company was really the "Nation" in India, and it had its own militia, and ran the economy. Likewise, for the states or colonies that were chartered by the crown, they ran a complete "system" of nationhood. The re-emergence of corporations in their role for which they were originally created, is now becoming quite obvious. This role was somewhat obscured for a while, but in the transnational corporate world it is obscure no more.

The parallel between colonial corporations and transnational corporations is really striking. England's colonial "Navigation Acts" required the north American colonies (now the United States) not to produce any of its own caps, hats, woolen and iron goods. Instead they had to ship these as raw materials, and on English or colonial ships that can only be manned by English or colonial crews. They dictated the price of the raw materials and they dictated the price of the finished goods which was manufactured in England and returned to them.

The pattern of today's transnational corporations is identical. Rather than shipping their own raw materials and getting it back as in colonial days, the twentieth-century states of limited sovereignty (colonies) are allowed to manufacture their own material and or ship it as goods or as raw materials, because what matters is that today's pseudo States (colonies) must allow free transfer of money and profits that the transnationals will make within the territories of those countries. Taking as an example of this transnational corporate methods, Nike company buys back shoes it makes in Indonesia at about \$12 per pair and sell them for over \$120 a pair. The corporate staff of Nike are well-paid and are limited to top management that looks after marketing, design, and administration mostly. And in this new corporate colonial order basketball star Michael Jordan was getting \$20 million dollars for his TV endorsement of the Nike brand per year, which exceeded the total annual salaries of the tens of thousands of the Indonesian workers that were manufacturing the Nike shoes.

In the United States, the role of corporations continued to be limited until the explosion of the industrial revolution during and after the civil war. Just as in to-day's political contributions where you pay in advance future political favor, the post civil war era witnessed a period in which the number and size of corporations exploded, and the hall of legislators were filled with monied interests that paid in cash for votes to change the laws and "make them to order." Changes of laws then were on cash and carry basis, whereas advanced mechanisms of control allowed the 20th century corporations to pay for influence partly in advance and some times on cash and carry basis also, as we exemplified in the Rosentiel case.

At the turn of the century -- in 1901 -- J.P Morgan and J.D Rockefeller joined forces to amalgamate 112 corporate directorates creating the Northern Securities Corporation of New Jersey. The combined assets of the corporations were \$22.5 billion which equalled twice the estimated value of all the property in 13 states in southern United States of America. The age of the mighty corporations that were bigger than states arrived loud and clear. The populist movement was derailed intelligently and by the 1920's an alliance between big business in the form of corporations was forged with the federal government. In this alliance the government accepted the corporate supremacy, and the fact that the government was there to serve and not to regulate big business and corporations. Herbert Hoover, himself a financier and speculator was the corporate advocate, both as Secretary of Commerce and as president of the United States. The decision-making and national agenda was made by the corporations and their councils and private institutions away from public debate. Business & corporations will prepare intellectuals and politicians to do the job of implementing these agendas. If necessary, business leaders would get in and out of the government to supervise proper implementation. Corporations became bigger than the governments and certainly the one that were calling the shots.

One of the immediate results of mergers and bigger corporations were managed competition, contrary to Adam Smith's capitalism that advocated free competition. Instead of many companies operating in any one market, now it is only few corporations that dominate markets in any one field that results in these few dictating prices and not market forces. As in the 1920's it was only a handful

of major oil companies' CEO's who were on a hunting trip who decided to monopolize the oil business and decided for the producing countries how much they should produce and for the consumer how much he must pay. Such a secret agreement went on for decades and finally was challenged by the justice department. The Department of Defense and the State Department went to the president of the USA and to the National Security Council to defend the offending corporations. The State Department went further into admission that these corporations were the "de facto" managers of American foreign policy, i.e., they are the government.

If we study the world's hundred largest economies, more than fifty are corporations and the rest are nations! One of the transnational companies alone had sales revenues that equaled the aggregate GNP of 9 countries with a population of 550 million people, or about 10th of the world's population. 25% of the world's productive assets are owned by 300 transnational companies only. The largest 50 commercial banks and financial institutions combined assets equal about 60% of the global stock of productive capital. This incredible power in the hands of the very few, gives autocratic power that overrules and marginalizes any democracy, legislation or government that may oppose its interests.

These few powerful corporations and financial institutions has created the system in which they can change legislations to suit the corporations even if resulting measures may require dismantling the social net such as Medicare, Medicaid and other social benefits.

Much was said about the evils of the Soviet economy being a centralized command economy. The big corporations exercise more centralization and command on "their economy" than the planners of the Soviets ever did. The 1997 sales of the world's largest five diversified service companies roughly equalled that of the whole Soviet economy. Just as the Soviet system was autocratic and non-democratic, so are the corporations by nature. Company management can downsize, side size, right size, fire and hire ruthlessly and democracy will be the last thing in their mind or agenda, as truly it is not within their corporate charter to run a corporate democracy.

In each field now, only a handful of corporations dominate the whole market.

The top five companies of consumer durables control about 70% of the entire world market. More than 50% of the global market of automobiles, airlines and aerospace, electronics and steel is controlled by 5 corporations. In the media industry 5 firms control over 40% of sales of the media industry and the concentration is getting greater. Two companies only control 50% of the total USA grain export (Cargil and Con Agra). Three companies slaughter 80% of U.S beef. 4 companies mill nearly 60% of the U.S flour! Farmers now will be making less, and consumers will be paying more, and the money goes to the corporations and their owners. The large firms practically dictate their "recommended" seeds, fertilizers, feed etc.. so they may purchase the crop from the farmers.

The hypocrisy of today's global economy system, is that while these companies are practically monopolizing their sectors of the economy, they request the whole world to "open up their markets" for them and to allow them to use their huge muscle against much smaller underdogs who will stand no chance to compete with them.

Transnationals are against national governments' subsidies to farmers or industries. Yet they may decide to subsidize one product or component within their multinational operations. This will greatly disadvantage the national and small companies and will result in unfair and unequal competition.

Financial corporations now dictate the economic well-being of whole nations as was discussed in other chapters. As corporations and monied interests have actually hijacked the democratic process, through the power of their money, media and the organizational circuits that they have installed to buy (or lobby as now is called) legislation and laws, the agenda and interest of the people and their agenda diverge.

The role of nation-states is being eroded. They are now being used as a governance vehicle to implement the corporate agenda that will transfer the wealth of the poor nations to the rich nations, and the majority of people to the few.

Thus, transnational corporate imperialism replaced old-style direct colonialism. In order to facilitate the operations of East India Company, India was colonized. Now such wealth extraction by transnationals can be accomplished without physical occupation through very intelligent but more devious and insidious processes and institutions. The information-age resources and tools made this

new form of imperialism manageable, and now the institutions for world governance and wealth extraction are all in place. Also, the prerequisites for proper functioning of this new corporate colonialism order are now being forced around the globe:

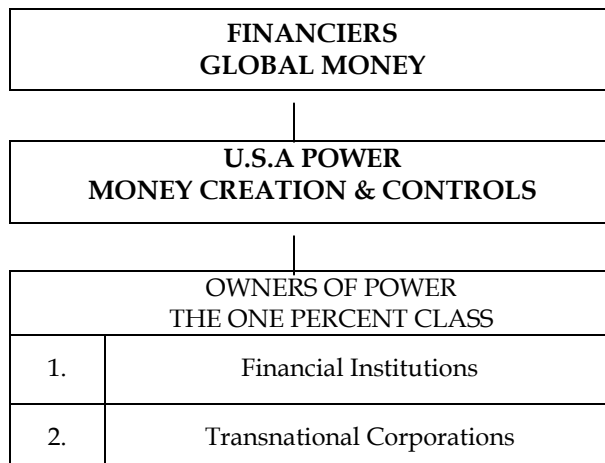
- Free trade to enable transnationals to secure global markets, thus creating unequal opportunities to national companies.
- Free access to raw materials of other people at whatever quantity or price transnationals judge as adequate and suitable to them, not to the producing countries. The dramatic decrease of oil prices to below 1973 (in real terms) is but one recent example.
- Free hand to transnational financial institutions to speculate or “invest” in other peoples productive economies and to have free movement of their capital to allow it to do so. Globalization is the locomotive to accomplish the above.

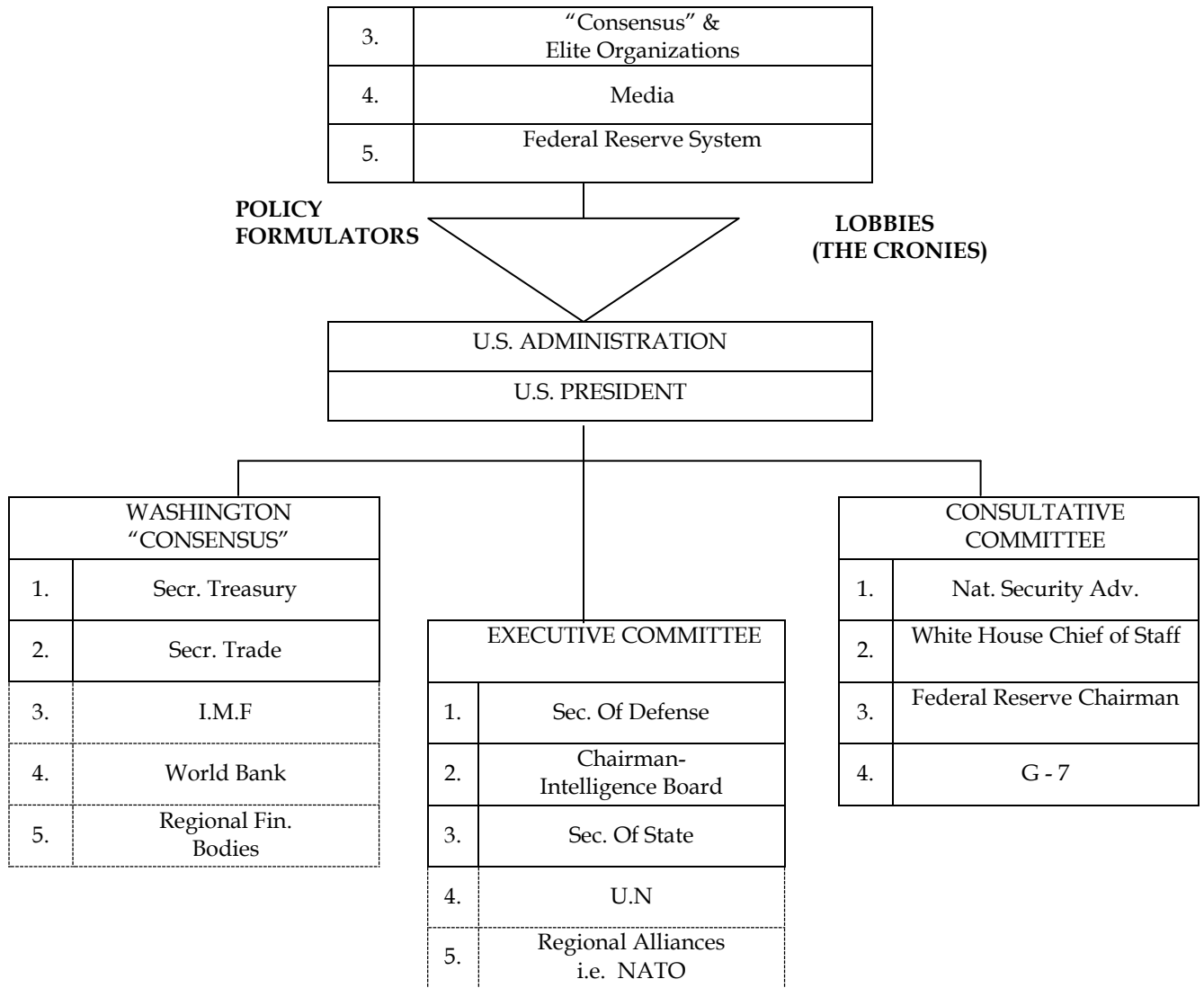
The globalization theory depends upon certain assumptions:

- *Economic Growth*: measured by the GNP is the way to human progress.
- *Free Markets*: without government restrictions result in the most efficient allocation of resources.
- *Economic Globalization*: creates new jobs, lower prices, increase choices and spur competition and economic efficiency.
- *Privatization*: Allows better management of assets by moving it from public to private sector.
- *Government Responsibility*: creates the infrastructure to advance trade. Enforces the rule of law especially to property rights.

A quarter of a century of globalization that intensified after the fall of communism is not producing the results. “It is ironic,” wrote (BW, September 12,1994, p.21) “then that at a time when prospects for global prosperity seem better than ever gloom envelops much of the industrial world. Japan’s economic juggernaut is stalled. Unemployment is at 11% in Europe. Companies are still slashing payrolls in the relatively vibrant U.S economy.” Korea the eleventh largest economy in the world is practically handing its economy to the IMF and global financiers. The many economic miracles of Southeast Asia that were described as tigers are in trouble more due to global money speculations than to fundamentals of their economy. In Russia Mafia capitalism and robber baron capitalism are creating a one percent class that is “stealing” public assets under different gimmicks, and the American people, with an economy as prosperous as ever are worried, anxious and unhappy.

Global capitalism is not delivering its promises to the people. Its is only delivering to a minority of one percent of the population more wealth and more anxiety with it.





**The Infofinancial Global Order**

“The devastation of Indonesia calls into question the efficacy of not only the IMF but also the behind-the-scene activities of the U.S Treasury Department.”

*Business Week*

Q: But the argument is that after some short-term pain in the long run, you come out more competitive.

A: I don't buy that idea. After you have killed a whole lot of people, killed a lot of companies, decimated all banks, reduced confidence in the whole system, then you say (Now, we are strong again?). No, it does not happen that way. It took us 40 years to reach where we were (before the crisis). Today, we (have been set) back by more than 25 years”

Malaysian Prime Minister in an interview with *BusinessWeek*

“They accuse us of practicing croynism. The co-operation between the U.S government and Wall Street is cronyism.”

Malaysian Prime Minister

## *Chapter 20*

### INFOFINANCIALISM: A GLOBAL PERESTROIKA

In the decade of the 1980's a man called Michael Gorbachev unleashed a movement that did not end where he thought, or said he thought it should end. Working overtly all alone, or covertly with others, the energy he unleashed within the Soviet Union destroyed that system, causing the collapse of communism, the Soviet Union and then Gorbachev himself. He now appears as an advertisement boy for one of capitalism's consumer products. Probably that was not precisely what he expected when he started perestroika.

If perestroika was to “reform” a water dam, Gorbachev's perestroika destroyed the walls of the dam without planning what to do with its water. The water flood swept everybody including those who broke the dam. Russia now after a decade from perestroika, has millions of old pensioners who are not receiving their pensions, and millions of workers who are not paid for months. The command economy of communism was replaced by another command economy run by the mafia. A 37-year-old controls now an empire of industrial companies, banks and media group equaling nearly 10% of Russia's gross domestic product! Russia turned from a superpower, to a non-power that

cannot even fight a small war as was the case in Chechnya. But how can you fight a war with hungry demoralized soldiers who did not receive even their meager pay for months after months? What perestroika proved was that superpowers can be made from a house of cards, and that their transformation from one status to the other can be at lightning speed. Lucky for the United States, and who knows, may be for the world, the debris and pieces of the USSR implosion were managed by another existing superpower that was interested in the implosion to occur, and had ready plans for where the pieces should fall. And a lone superpower is now in place. If communism had any benefits, probably one of them was it created a global competition between competing ideologies. It resulted in a de facto checks and balances system, many times imposing self-control to win the competition.

In the cold war several varieties of capitalism were allowed as long as they were capitalism. Thus, a Japanese brand of capitalism evolved where the country's culture of groups predominance over individuals is part of the historic culture of Japan. Korea & Southeast Asian "tigers" by virtue of proximity and culture, adopted the Japanese model of capitalism. European countries, specially those with strong communist parties or those adjacent to the USSR borders adopted a more permissive socially-oriented version of capitalism that was generous to the workers, and in which the State played a big role. After the collapse of communism, the American brand of capitalism, also known as the Washington consensus, became permissive no more. Being a superpower monopoly, the owners of the power structure of the Washington consensus were tempted to impose their version of a global economic order, considering, in their view, that there was no better time to do so than now. They wanted to change the world the way Gorbachev wanted to change the USSR, and just like Gorbachev, they are now having a global perestroika that most likely will not end where the Washington consensus wants it to end. Other ideologies and versions of capitalism are being assaulted under the label of (reform) to open their economies and make it compatible with the Washington consensus, thus creating a global economy with free trade and free finance.

This simplistic logic stems from the doctrine of modern western civilization that considers science to be its religion, money and economic growth to be its God. Computers can be perfect on working mathematical models, but they cannot accurately predict the social consequences of their calculations. That part is where they will most probably fail. The movers and shakers of the Washington consensus are money-oriented, money creates greed. Greed is a human instinct. Computers know very little about it. And if computers are science, the financial markets that direct them are sentiments motivated by greed. Therefore, to-day's computers are giving inaccurate forecasts according to the law of garbage in, garbage out.

Let us look at the world in June 1998.

The Southeastern Asian countries crisis is deepening. It was initially forecast that recovery was only six months away and that economic growth might suffer mildly. Now the picture gets gloomier, and it is six years instead of six months. The Malaysian Prime Minister estimated that the economic storm that hit his country turned it back some 25 years.

*Estimated Growth Rate*

		Indonesia	South Korea	Malaysia	Korea
•	April 1997	+8%	+7%	+8%	+7%
•	Dec 1997	-1/2%	-1%	+2%	-7%
•	April 1998	-9%	-4%	+2%	-7%

At the start of 1998 business circles "mused" that as everybody in Asia was going to IMF, Japan was rumored as a possible candidate! The Japanese economy is getting sicker by the day and many Japanese business men and government bureaucrats are committing suicide as never before. "The numbers of bankruptcies and unemployed is higher than at any other time since the end of World War II." The problem with Japan is that it is not allowed to be how it knows best: Japan. And therefore people are distressed and the economy is crumbling. On April 1, 1998 Japan's big bang was started to deregulate its financial markets. And what happened? In the first ten days of April 1998 the Japanese capital flight to western markets was estimated at \$21 billion. With \$9 to \$10 trillion in Japanese household wealth, these numbers will keep growing especially as the yen devalues! The Paradox is that Asian countries now not only are receiving less foreign money to their markets, but the

money of Asia is now fueling Wall Street and other European stock markets -- while Asian stock markets are heading south.

Asian capital outflows were \$10 billion in 1996, \$65 billion in 1997 and \$130 billion is the estimate for 1998. The financial deregulation under the label of free trade and free finance had a double negative effect: it caused the Asian governments to change the status quo before proper institutions were in place, and thus losing control on who is borrowing how much in the private sector, allowing the private sector debts to balloon, and also allowing Asian money to flee to Wall Street and other Western stock markets.

In reality, deregulation allowed Asian money to head west and money from the west to be handed back to the Asian countries but now with strings attached. After the financial deregulations were forced on Japan, a huge pipeline to pump the \$10 trillion of Japanese financial assets was created. From now onward, the higher the pressure on Japan the higher the quantity of money that will flow to the western financial markets. The same scenario is happening to Korea, Indonesia and other Asian countries.

Indonesia was such a good client to Washington and the Washington consensus that it took the initiative to call on the IMF as soon as Thailand economic problems started. The Indonesians expressed alarm at the prospects of the speculators attacking the Indonesian national currency, the Rupiah and wanted help to stop such a possibility. The IMF reassured Suharto that his economy was sound to the extent they did not feel a need to expand their one-man mission in Indonesia. Yet the speculative attack on the Rupiah kept that currency tumbling. Then the IMF changed its mind and decided that the attack on the Rupiah and its devaluation is now hurting the real economy and they recommended their standard bitter medicine: Reform the banks that crumbled suddenly due to the speculation on the Rupiah. They recommended to allow banks to fail! As Indonesians saw some of their street corner banks close, they pulled their money from all banks. As Suharto saw the IMF make one misjudgment after another he started to have second thoughts about the IMF.

His problem was that he saw IMF shortcomings ahead of the IMF and U.S Treasury department officials. "The devastation of Indonesia calls into question the efficacy of not only the IMF but also the behind-the-scenes activity of the U.S Treasury Department," said BusinessWeek some six months later (BW, June 1, 1998). What BusinessWeek thought was a legitimate call to question the IMF-U.S. packages to Indonesia was denied to its duly-elected president who knew his country better. Worst yet, the IMF-U.S Treasury team recommended that Indonesia remove the subsidies on basic consumer products for the poor; food and fuel at a time inflation was sky rocketing due to the fall of the Rupiah. Suharto was certain that doing so can only lead to riots and create more problems rather than solving them. As the news about IMF demands leaked out, millions of Indonesians traded their Rupiahs for rice, cooking oil and other essential products. Suharto made his final attempt to stall the implementation of the IMF demands. But now, the U.S took higher visibility in the crisis as Lawrence H. Summers and other U.S. officials started to pressure Suharto. Among them was Secretary of Defense Cohen. Also, Clinton called Suharto in mid January 1998, about the time the U.S. Treasury officials were in Jakarta. He "advised" Suharto to accept and implement the IMF conditions "as if they are from the hand of God". With such an ultimatum Suharto was damned if he did accept, because he knew the consequences of IMF austerity measures, and damned if he did not because he knew he cannot resist "the hand of God." The Indonesians had to accept the IMF conditions which were signed on January 15, 1998. But the Rupiah continued to plummet. Suharto, as he saw what he expected, riots throughout Indonesia as subsidies were lifted on food and fuel, expressed his conviction that the local opposition "with foreign investors.....want to take over our assets at deeply discounted prices."

With IMF recipes bringing riots and no results Suharto was fed-up with the IMF and its remedies. He decided to produce a national plan, not an IMF plan, after the IMF failure. His ministers consulted with professor Steve H. Hanke of John Hopkins University and they came up with an Indonesian plan that incorporated a "Currency Board." Clinton however sent former Vice-President Mondale to Suharto to request him to abandon the currency board and national plan and follow the IMF plan. But now, the power structure of the "invisibles" apparently made its decision to get rid of Suharto. On the very same day of his re-election March, 11, 1998 the IMF announced its decision to withhold further payments. Bob Hassan, a Suharto confidant and minister of Industry and Trade declared, "This is not the republic of the IMF."

Events to remove Suharto from office followed rapidly:

- May 4, 1998: The government in compliance with IMF plan removed price controls on fuel and riots were sparked throughout the country.
- "The military manipulated Indonesia's student protesters and ousted Suharto," said Newsweek, June 1, 1998.
- "On the morning of May 18, they bused influential University alumni to meet with the leaders of the assembly and allowed students to keep the pressure on Suharto....and to activate a constitutional and legislative process that would remove him from office."
- On May 18, assembly speaker asked Suharto to resign.
- On May 19, U.S secretary Madlene Albright "invited" Suharto to resign.
- On May 19, the press services announced that U.S marines helicopter carrier "Yellow Wood" was approaching Indonesian coasts!
- The army grouped leading intellectuals to give advise to Suharto. Nurcholish Madjid, 59, revealed that prior to his meeting with Suharto to "give him advice" he was summoned to General Bambang Yudoyono, the commander for sociopolitical affairs, who requested or encouraged Nurcholish to advise the president to resign!
- On May 21st Suharto resigned.

It is true that Suharto's crony capitalism created 200 billionaires among 200 million Indonesians. But that's capitalism in whichever form. About half of the mighty USA's wealth is owned by only one percent. The infofinancial system's multinational companies suddenly discovered the evils of Indonesian cronyism yet it was always in partnership with it. It was the United States that assisted Suharto to power 32 years earlier against the government of then president Sukarno who was not much appreciated by the cold-war Washington policy makers and its national security establishment.

On June 25, 1998 with Suharto removed from office, Indonesia and the IMF agreed on a new program for the Indonesian economy, but now the situation is even much more critical than the Suharto days. The \$43 billion current IMF bailout is now considered inadequate. Inflation is expected to hit 80% in 1998. Production and export suffered greatly and the banking activities are almost paralyzed. And the June 1998 estimates forecast a 15 to 20 percent contraction of the Indonesian economy for the year 1998!

Also, 50% of the whole population will fall below the poverty line!

The crisis that started with Indonesia taking the initiative to request IMF advice prior to the crisis, ended with the devastation of the Indonesian economy. Bob Hassan said that Indonesia "is not the IMF Republic." He was right. With a 20% contraction of the Indonesian economy "only 80% of Indonesia" now belongs to the IMF Republic of the global infofinancial system.

The combination of bad news from Japan and robber baron capitalists of Russia not paying their taxes, while most of the economy was transferred to them under the label of privatization, Russian economy continues to crumble. Within the first five months of 1998 the Russian stock market dropped by 40% and a run on the ruble is a great probability that will only make the lives of the majority of Russians even more unbearable. In 1998 so far, Russia had a second worst stock market in the world.

In the New York Times, June 27 1998, p.9b, Paul Lewis wrote, "Karl Marx may have been right after all." As readers revisit (The Communist Manifesto) on its 150th anniversary, those on the left and the right have been struck by the eerie way in which its 1848 description of capitalism resembles the restless, anxious and competitive world of today's global economy.

Economists and political scientists note how the manifesto, written by Marx and Friedrich Engels, recognized the unstoppable wealth-creating power of capitalism, predicted it would conquer the world, and warned that this inevitable globalization of national economies and cultures would have divisive and painful consequences. "The Manifesto speaks to our time," says Dani Rodrik, professor of international political economy at Harvard University. Marx saw capitalism as the driving force of history. But he also warns of the divisions that capitalism's spread would bring, of the social orders destroyed. Professor Rodrik added, "Marx underestimated capitalism's ability to buy proletarian support by gradually enfranchising them.... A series of implicit social contracts underpins capitalism, of which the most recent was probably the creation of Welfare States and social security systems after the second world war." What is missing in this logic is: Karl Marx may have correctly

diagnosed the symptoms of the ills of capitalism but he gave the wrong medicine. If today's capitalism symptoms and excesses are just the same as 150 years ago it is because human nature, i.e. greed, was then just as now the same. And since capitalism is not an ideology and has no ethics, it is managed by greed which is now assaulting welfare states and decreasing social benefits to the masses to an extent that social security revenues are ahead of social security cost benefits, i.e. the system is making money from social security. The various social security systems and program benefits are being revised downwards ever since the collapse of communism.

To the British Marxist historian Eric Hobsbawm, Marx's description of capitalism is "...recognizably the world we live in 150 years later." Paul Lewis added, "The manifesto's warnings about capitalism's periodic crisis foreshadowed the Great Depression of the 1930's and the more recent cataclysms in Mexico and Asia...And despite the dire language, readers may be reminded of the recent layoff of 15000 workers at Motorola to meet mounting competition, the 18 million unemployed in Europe, the growing disparity in income throughout the world and workers, increasing insecurity as companies shift production to countries with lower wages....Leo Pantch of York University in Toronto and Colin Leys, an emeritus professor of politics at Queens University in Kingston, Ontario, argue that, "the irreconcilability of democracy with private property must come clearly back on the Agenda." What really must come back on the agenda is the speculative unproductive economy and its manipulative ways of extracting wealth from the productive economy.

Professor Rodrik argued in his book "Has Globalization Gone Too far?" that "we need a new social insurance to soften world capitalism" and restrain the suffering it is causing to the lives of ordinary people everywhere. Such a request is against the nature of capitalism and what is really needed is not a "new social insurance" but re-examination of the ethics and value systems of global capitalism and its creed of making money as the measure of all success and economic growth as the ultimate aim of society delinked from other spiritual and social values.

Probably, John Grey, a politics professor at Oxford University, was closer than most when he denounced supporters of free trade and a single global market as "a utopia that can never be realized but which already produced social dislocation and economic and political instability at a large scale."

As we stated earlier in this book, the parallels between the industrial revolution of the 19th century and the information revolution of the 20th century are indeed striking. If Marx predicted the ills of capitalism 150 years ago he did not prescribe the right medicine. Nor did capitalism change its nature. With capitalism excesses unleashed, are we to wait for history to repeat itself, and to wait for new great depressions and social and political turmoils that followed the industrial revolution?

If this global perestroika goes unchecked, as most probably will be the case, the most likely answer is yes. The social welfare state in the United States was created only when capitalism was threatened. It was designed by president Franklin Roosevelt to save capitalism after it virtually collapsed in America. Without pressure now, capitalism is coming back to be itself, as the various social welfare states and many of the social security programs are either canceled or decreased. Ironically, some of the global financiers that were accused of triggering the Asian crisis do believe so as well. In an article at USA Today (June 19,1998) titled: "Yen's fate stands on shaky grounds" reported that the hedge funds of George Soros were big seller of yen and took advantage of the United States and Japan's support of the yen. "...Soros told a conference in Sweden last week that Japan is suffering from conditions reminiscent of the 1930's Great Depression." And when and if that happens Japan will take the rest of the world with it.

The social programs that capitalism adopted when under the pressure of competition of another ideology were and are being dismantled world-wide. What capitalism learned earlier in the 20th century about the need to control money supply resulted in the creation of the Federal Reserve System in 1913. Now, the financiers are creating new financial instruments and unlimited money supply that has no "Federal Reserve" equivalent to control. After the global push for deregulation, the financiers lent money recklessly and they depended on a Wall Street - Washington cronyism to bail them out, from any negative consequences of their own deals. The "deregulated" governments lost their previous controls on money supply. Thus deregulation resulted in many countries (which had to open their economies under pressure) unable to know who owed what and how much. The previous regulations were performing what the Federal Reserve System was supposed to be doing in the U.S. An old system was dismantled and the existing controls just disappeared. "Bankers, however, could be dangerous. They are human, after all. Left to their own impulses, they might be tempted to

expand their loans and create new money infinitely -- collecting more and more interest income, the main source of banks' profits, until eventually the system collapsed of its own greed." (*The Secrets Of The Temple*, p.60)

A global perestroika is now under way and its aftershocks are snowballing. A former American official at Bill Clinton's Treasury Department had a term of his own describing the force of the global markets. They are "the nukes of the 90's ....when arrayed against any nation....they can impose previously unthinkable changes". We called them in this book global infofinancial nukes. Just like Russian perestroika destroyed the dam before planning what to do with its water, the global perestroika is managed by greed and aim to change all economic models of the world into just one model of its design. Global perestroika is destroying the structures of the old systems before seeing that adequate viable new structures are in place. And global perestroika is armed with infofinancial nukes that has nobody to keep them under control once they are unleashed.

It is a dangerous world and global perestroika is only making it more dangerous because it is defying the rules of Management 101.

"(The Indonesian) economy (swang) from rapid growth to even more rapid contraction, unemployment soar, and the stock market (lost) much of its value.... The real tragedy of the Indonesian crisis is its effects on the poor and vulnerable. They face falling real wages, fewer jobs and rising prices of food and other essentials, including health and education services."

Jean-Michel Severino  
World Bank, Vice President of East Asia  
and The Pacific regions, *Herald Tribune  
International*, July 28 1998

"...for example, the city of Vladivostok has been plunged into darkness because the miners blockades have prevented coal from reaching local power plants. In the Sverdlovsk region of the Urals earlier this month, hungry women blockaded a road, clamoring for bread"

*TIME*, July 27,1998

Although "the medicine of economic reform is bitter " it was essential for economic recovery "even though the consequences for workers and families caught in the middle can be difficult and unfair."

Madeleine Albright

Secretary of State, United States of America  
*Herald Tribune International*, July 27 1998

“All the talk of IMF packages and economic recovery will be only chatter until there is political stability in Indonesia, and there will be no stability if people can not eat.”

Robert B. Zoellick  
Former Undersecretary of State  
in the Bush Administration,  
*Herald Tribune International*, p.6(July 24 1998)

## *Chapter 21* **THE YEAR AFTER.....** **Asia and The World**

One year after the Southeast Asian crisis was started in Thailand and snowballed to flatten one economy after another, I was in Europe on a business trip in July 1998. Most of this book chapters drafts were completed by then. The aftershocks of the Asian meltdown on other regions of the world and the deepening of the crisis within that region received a great amount of coverage in the English language press that circulates in Europe. These publications made my reading materials in planes, trains and hotel rooms. It was noted that these events moved from back pages to front pages. The amount of coverage was drastically growing in the past couple of months and more voices of alarm are now blowing whistles. Alan Greenspan testified to congress at early stages of the Asian crisis that it may be a salutary event to the American economy. Now he is having second thoughts, not only about the effects of the Asian crisis on the American economy, but he expressed an opinion about the new era of infinancialism that is forcing changes on world structures. Following a speech before the American society of News Papers Editors on April 2, 1998, Greenspan said: “I always have great skepticism about new eras and changing structures, of the way the world functions.” (BW, July 13,1998, p.39)

Since this book was written to express skepticism about the “new era” that we call infinancialism we are trying to add alarm to go with skepticism. It was noted while reviewing the news publications of Business Week, Time, Herald Tribune International (HTI), News Week, & The Wall Street Journal Europe, that many conclusions that we worked hard to bring out from between the lines or fine prints are now stated clearly. Since the seriousness and loyalty of the above publications to the principles of market economy is beyond doubt, few can or may accuse them of bias against the on-going global world order. For the above reasons combined it was decided to quote these publications within the month of July 1998 and add this chapter. The conclusions and facts drawn by many of the quoted items are perceived by this writer as supportive to his arguments that appeared in this book.

On “What Sank Asia” Robert Kuttner wrote in (Economic Viewpoint) in *BusinessWeek* (p.14, July 27, 1998):

- “We are learning once again the fundamental difference between free commerce in ordinary goods and free commerce in money. The former is broadly efficient... The latter is destabilizing and deflationary - it holds the real economy hostage to the whims of financial speculation, which is vulnerable to herd instincts, manias, and panics. In ordinary commerce, prices adjust and markets equilibrate. In global money markets, erratic and damaging overshooting is the norm.”
- “The Asian collapse is widely blamed on structural problems -- too much state interference in economics, crony capitalism, and thinly capitalized banks. But that system, while in need of overhaul, did produce exceptional growth for two decades. The more important cause of the Asian crisis is the sudden exposure of these nations to the speculative whims of unregulated financial capital.”
- “The fundamentals of most Asian economies remain enviable - high saving rates, well-educated and disciplined workforce, high rate of productivity growth. However, when these economies became targets for global financial speculation, they were abruptly exposed to forces beyond their control”.
- “The Bretton Woods married free commerce in goods to regulated commerce in money. It created fixed exchange rates and controls on private capital movements - precisely so that free trade in goods could coexist with high growth and full employment. Financial speculators had no role in the Bretton Woods system, so there was no systematic bias in favor of slow growth.”
- “Bretton Woods collapsed, however, because it was never anchored by the global credit system envisioned by Keynes. Rather it was temporarily anchored by the U.S. dollar. But when the need to finance expanding global commerce collided with the need to maintain domestic price stability, dollar hegemony became too great a stretch. The U.S. sacrificed fixed exchange rates, finally ending the Bretton Woods system in 1973. It is more than a coincidence that in 1973 the era of slower growth also began.”
- “With the collapse of Bretton Woods, a new generation of free market fundamentals insisted that money was just another commodity with prices set by markets like the prices of ordinary goods. Exchange rates should float, all capital markets should be totally permeable. Recent events, however, have proven this view tragically wrong.”
- “If we are not careful, the world will enter a deflationary spiral not unlike the Great Depression, triggered by events in Asia.”

It is not only our book, or Kuttner who now argues about the world being at the verge of economic turmoil or may be great depressions. “Lombard Street Research of London in a report last month called ‘Return to The Golden Age of International Financial Crisis,’ said that falling export prices could have a massive effect. Just as there is deflation in Asia today, the 1930’s crisis was preceded by collapsing food and commodity prices at the periphery of the world economy, the report said.” (HTI, July-24-1998, p.17)

The lands that were destroyed by the financial speculators become the new lands of opportunity for them to take over assets at distressed values, create bubbles and bust them and create misery only that was equalled in world wars previously. Within only one year Indonesia, a country of 200 million people turned from rapid expansion to rapid contraction. Its currency value is now one-sixth of what it was one year ago, and the number of people who moved or will move before the end of 1998 to below the poverty line will exceed 100 million people or 5 times more than what it was only one year ago. And one may be surprised to learn that those who are defined above the poverty line are those who earn \$3.6 per month. Yes - three point six U.S dollars per month per one person. And with such definition, some 100 million people will not make it. In only one year, 30 years of national growth were wiped out making it legitimate to question if such growth recovery is worth any human suffering at all! Thirty-seven percent of all Indonesian children are now underweight and suffers from malnutrition. More than 80 million Indonesians now receive hardly 2/3 the normal daily caloric intake. About 7 million Indonesians now eat no more than one meal a day! The Indonesian president called on all Indonesians to fast two days a week. Children and rats scavenge public garbage hoping to salvage something to eat! To the Secretary of State of the United States of America Madelaine Albright, this suffering is incidental. What matters was economic recovery and of-course according to the American vision of economic growth. When president Suharto questioned the conventional wisdom of U.S Treasury and IMF schemes, he was removed from office. Thirty-two years of cronyism in association with multinationals was only discovered then, and General Wiranto, the commander of

the Indonesian armed forces manipulated his country's inexperienced students against Suharto and co-ordinated with the invisibles Suharto's downfall. But now, as hungry Indonesians loot just to survive, Wiranto issued a stern warning: "I need to warn all people that looting cannot be tolerated even if it is done to save oneself from starvation ...." (HTI, July 22, 98, p.1) One thing at least can be seen in common between Wiranto and Albright: they both share the same passion for the underprivileged- and this was one of the points this book raised: national elites share the same values with transnationalists and they belong to the same club.

All this happened to Indonesia within a period of one year only. And Indonesia was the country that took the initiative to call the IMF to review and recommend any precautionary measures needed after Indonesia saw the financial crisis hitting Thailand. The IMF assured Indonesia that its fundamentals were in order and had nothing to worry about. But Indonesia was attacked, the IMF gave one blunder after another and when Suharto was fed up with IMF and its medicines, Bill Clinton called Suharto in January requesting Suharto to accept the conditions of the IMF and U.S Treasury as if "they come from the hand of God". The patient took the medicine, and the patient is now dead.

Six months after Clinton's call to Suharto on behalf of the global financial power structure, the U.S. president had to make another call on behalf of the same client - but this time to the IMF and international lenders. The IMF was reluctant to advance another bailout to the ailing Russian economy, as such aids vanished previously in the corrupt, structurally flawed Russian economy. The call was not to secure payments to unpaid Russian workers who were unpaid now for months, but to save the ruble, the banking system and the financiers loans extended to those now shaky Russian banks. It was because: "Rumors of a possible coup-plus worry on Wall Street - persuaded Washington to pressure the IMF. Says a prominent American investment banker in Moscow: (one guy made the call - Bill Clinton)". *TIME* July 27 98 - P22. The strings attached to the IMF bailout are the standard austerity measures that add misery and poverty on the already poor. Corrupt inefficient Russian government is now requested to collect taxes. Rather than collecting taxes from the few who stole the states enterprises under different scams and schemes, a sales tax is proposed up to 20% , while corporate taxes are to be decreased! Those who were deprived even from their meager wages are now to take the burden of such a bailout. When the Russian Duma showed unwillingness to pass such measures democratic Yeltsin announced that his government if needed will rule by decree. The Vice-President of the Duma described the proposed laws as "lethal medicine cooked up by the vengeful western economists." *TIME*, July 13,1998.

But it was not the communists of the Duma and the starved unpaid Russians that are crying out loud against the IMF measures. "Russia's major oil companies accused the government on Wednesday of surrendering to (irresponsible) pressure from the International Monetary Fund.....Deputy Prime Minister Boris Nemisov said that .... "A situation where real-informed people begin speaking about a dictatorship from international financial organization is a joke." (HTI, July 23,1998, p.11). But it may not be really a joke if a leading U.S. daily, USA Today says, "Russia's economy and leadership are in the hands of international lenders...." (USA Today, July 20, 1998, p.9a) That's loud and clear. It is quite amazing how Gorbachev Perestroika turned a super-power to a no-power whose economy and leadership became hostages to international lenders. It is scary that a global perestroika may run out of control causing unpredictable and uncontrollable changes and damages that may cause unprecedented upheavals, wealth destruction and social unrest. The world must be extremely alarmed when those who man 11,000 nukes are both hungry and desperate.

Unpaid angry workers in Siberia protested in early July 1998 against Yeltsin and his reforms and demanded to be paid their salaries which they did not receive for months. At the far east of Russia, the city of Vladivostok, miners blocked coal trains and prevented them from reaching the power plant thus causing a cut of electricity. They demanded their unpaid salaries and protested against Yeltsin's reforms. Hungry women blockaded roads at the Sverdlovsk region of Ural asking for food to fill their stomachs. And now, the IMF requests further austerity measures on these miserable people!

Let us see what the IMF wanted Russia to do as conditions of its bailout package:

- "Keep rates enough to support ruble while converting short-term ruble debt to longer-term dollar debt  
Economic Impact: prolong the drought in corporate borrowing and delay economic growth until late 1999 or 2000.

- Impose a new 5% sales tax, while simplifying personal and corporate taxes and cracking down on evaders.  
Economic Impact: squeeze consumer spending, which had rebounded in 1997, hurting retail and service businesses.
- Force cash-starved companies to pay their utility bills and back taxes or face bankruptcy.
- Economic Impact: Trigger a shake-out among enterprises surviving on barter; could push unemployment to 20% by 2000.
- Slash agricultural defense subsidies sharply while cutting budget deficit from 5.5% to 2.8% of GDP by next year.
- Economic Impact: could spark backlash from regional governors, who will have to deal with protests from workers who favor higher spending.”  
*BusinessWeek*, July 27,1998, p.21

What is not mentioned above was the request to cut down taxes on corporate profits. But what is mentioned of the IMF bailout conditions consequences are: delay of economic growth until late 1999 or 2000, negative impact on retail and service businesses, pushing unemployment up to 20% by 2000, and backlash and protest from workers who are to suffer the most.

Now that we have seen how badly the Russian people are going to suffer by the IMF conditions, let us see who will benefit from it, as the case with other IMF bailouts. “The truth is, the American and German- backed bailout by the International Monetary Fund was essentially a political act designed to steady a country holding thousands of loose nukes. The luckiest benefactors of this cold war legacy are the foreign and domestic investors in Russia’s \$70 billion government Treasury-bill markets who sparked the crisis in the first place. These highfliers will now be bailed out of their mistakes. In exchange for their ruble T-bills, foreigners will be offered long-term Eurobonds denominated in hard currency. If Russia had not received the IMF money and been forced to devalue they would have faced ruin. For these folks, it’s no risk and all reward.” (NW, July 27,1998, p.64). Our view in this book that the IMF bailouts are to bailout financiers from their reckless acts couldn’t have been expressed and supported better than this editorial of *BusinessWeek*!

The Russians lost faith with Yeltsin and his IMF reforms. But not x-president George Bush. About the time Russia was about to collapse, he was visiting Moscow to mark the opening of Goldman Sachs Moscow office. Bush expressed optimism and faith in the “power of freedom” in Russia just about the same time the sitting U.S president was making nervous phone calls to international lenders and organizations to prevent Russia’s collapse, and while hungry Russians are rioting just to fill their empty stomachs. But even a new 37 years old Russian robber baron capitalist knows better. “When treasury bill rates rise to 80% , it means we’re in a pre-collapse state” said Vladimir Potanin as was quoted in *TIME* July 13,1988. “It’s logical what could come next: devaluation, the crash of the banking system, huge lines of people trying to get their money out, unpaid wages and heightened social tension.” Russia’s banking system has \$200 billion debt. A devaluation will wipe out most banks due to their dollar-forward contacts exposures to western banks.

To show their keen interest to abide by IMF requests of better tax collections the tax police stormed an oil company that owe the government \$2.5 billion of unpaid taxes but left it alone as soon as its executives had a private meeting with Yeltsin. They also targeted multinational companies and wacked Johnson & Johnson’s Russian subsidiary demanding \$19 million in back taxes and fines and filing “criminal charges” of tax evasion against two of that company’s expatriate employees! All a good sign of the seriousness and efficiency of the Russian government!

Some analysts believe that Russia is now in a pre-revolutionary situation. About 70 percent of the Russian people are at or below the poverty line. Top professionals earn no more than \$100 per month and such meager wages are shrinking by the day as the ruble was allowed to sink. Some \$40 billion of U.S dollars in cash are in circulation, thus making the dollar the defacto currency of the land. This madness could not have happened if there was no mad man in charge of the country - Brent Scowcroft, the National Security Advisor of President Bush was quoted by the *New York Times* that Russian President Yeltsin goes through periodic stages of insanity every now and then. On Aug 30 1998 Bill Richardson, the U.S ambassador to the United Nations, denied such allegations and defended comrade Yeltsin as not only fit but a Patriot!

Richardson is entitled to his opinion, but madman or not, only 6% of Russians thought that he was worth the presidency before the American magic of image-making and campaigning got him back to office. The majority thought that even Stalin had more virtues than Yeltsin. More Russians think so now of "Patriot" Yeltsin. Tetya Zhenya, an elderly Russian woman who lost most of her savings due to Yeltsin "reforms!" decided what to do with whatever money she may be able to collect. When Yeltsin dies, she said, she will make a party and get everybody in her village drunk. But Nikolay Luchev, the head of a school near the town of Pakhomoro was more serious and precise: "In the past (Russians) lived like slaves under the communist regimes. Now they look back on their slavery with delight," (TIME, September 7, 1997, p.24)

On Japan. The call for Japan to open up its markets and change its system and the real causes for such commands are now more clear than ever and they support the theme of this book. On her way to the ASEAN meeting in Manila held the last week of July 1998, U.S Secretary of State Madeline Albright said that it was "essential that Japan stimulate and deregulate its economy." (HTI, July 27 1998). The request for dismantling the undesired Japanese brand of capitalism was very clearly stated in TIME, July 13 1998, "To fix their economy, they will have to demolish the world's last big capitalist welfare-state which they have been loathe to do. Japan's curious brand of capitalism incorporates socialist-style state subsidies, central planning and rigged labor market." TIME article added that "the hidden hand of the market (is) replacing the heavy hand of the bureaucrat.....The International Monetary Fund is now forcing this kind of medicine on Asia."

Why the American brand of capitalism looks suspiciously at Japan's economic model is stated clearly in the Wall Street Journal Europe, July 27, 98. "In 1987, when then prime minister Yasuhiro Nakasone pledged billions of dollars in foreign aid and private investment to Asia's developing nations, plans were already afoot to turn the region into an industrial zone for Japanese companies. At the Ministry of International Trade and Industry, thick reports were compiled detailing exactly how it would work..... The Japanization of Asia chilled the west, which feared the rise of a Tokyo -- administered protectionist bloc that some compared with the Greater East Asia Co -- prosperity sphere, the euphemism Tokyo applied to imperial reign during World War II." Among the greatest fears of the west was for China to copy the Japanese brand of capitalism which is both closer to it culturally and ideologically. The West was not ready to gamble with a Chinese market that has about 20% of the world's population. And the west not only wanted to stop the spread of the Japanese brand of capitalism, but wanted Japan itself to change its system. And it was obviously not the Japanese people's interest that infofinancialism had in mind. They wanted deregulation and a Big Bang that removed many of Japan's long-time barriers on foreign investments so that Japanese money can start flowing to their financial institutions. And it was precisely expressed in TIME, July 13, 1998, p.47. "Foreign players are salivating at the prospect of tapping into \$9 trillion in Japanese household financial assets." Tens of billions of Japanese money indeed found its way to the west within few days from the time the Big Bang took effect. And hundreds of billions are now expected to land at western financial institutions and the flow will continue until Japan runs out of money or western financiers stop salvating whichever is first. The paradox here was Japan did the Big Bang under pressure and worried from its wealth to flow to the west, yet Moody's Investors Services Inc., warned on July 23, 1998 that it was concerned about the "volatile portfolio shifts into foreign currency assets by Japanese residents in the post-Big Bang environment." Therefore, the investors and their Moody's are now concerned about the after-effects of the Big Bang which they forced on Japan. Just like Moody's first announcement on Japan came on the eve of the APEC conference in April 1998, this announcement "coincided" also at the eve of Japan's elections to elect a new prime minister. Moody's stated its message in no unclear terms what Moody's Investors thought Japan must do. It stated that its review of Japan's credit was "prompted by deep structural problems in Japan's economy that have defied conventional policy remedies." In other words Japan must change its conventional economic policies, i.e. its brand of capitalism to satisfy Moody's investors. The world's second largest economy's stock market and its national currency were negatively affected by this announcement. The stock market in Korea fell by 5.7 percent. The Hong Kong's Hang Sang Index fell by about 245 points and the Nikkei 225 stock average fell by about 105 points!

The fact that Southeast Asian crisis was triggered by western speculators, and that the flattened economies of these nations had the severest effect on Japan are always neglected. In the fiscal year ending March 31, 1998, Japanese construction companies reported 20% decline in their

orders in Asian markets. MITI reported that 60% of Japanese firms or their affiliates in Asia suffered from the Asian crisis, either by lower returns on their investments or by having lower exports as a result. The Japanese recession and the Japanese banking crisis was aggravated by external pressures and not because of malfunction of an economic system that -- regardless of some short comings -- proved superior to other forms of capitalism for the past 50 years. Infocapitalism is destroying the Japanese brand of capitalism and is waiting to pick up the prize: "Goldman, Bankers Trust, Morgan Stanley, and the like, have assembled \$20 billion to buy Japanese loans and property. With U.S. property prices rising, investors figure their best chance for big returns is in depressed Asian markets." (BW, July 27, 1998, p.54)

In Korea: "South Korea's labor confrontation gained momentum with the walk-out Wednesday (July 22) of workers from auto, shipbuilding and other heavy industries ahead of a nationwide general strike that unions have called beginning Thursday (July 23) ... South Korean authorities declared the strike illegal and arrested 19 labor activists and threatened to use riot police against strikers, who are protesting job losses due to South Korea's economic down turn." (HTI, July 23 1998) Likewise, international investors are getting what they were expecting: the take - over of the Korean companies at distressed prices. The Wall Street Journal Europe (July 27 1998) reported that both Ford and General Motors are bidding to take over KIA Motors of Korea. The bidding process is organized by Anderson Consulting.

How Asians feel about their companies being taken over by western companies at distressed prices was expressed by the Malaysian economic czar, Daim Zainuddin when asked about what he thought of foreigners buying Malaysian assets: "When we see headlines about fire sales of assets in Asia that causes resentment. I compare this to the British East India Company. It came from the other side of the world to take over. But with Wall Street, no one needs to come and fight, they just press a button." (BusinessWeek, July 13 1998, p.25)

Thailand was the first to be hit by the speculators in July 1997. They performed IMF measures as dictated to them. How are they doing now?

"One year after the Asian economic crisis began in Thailand all 15 of the country's commercial banks reported first - half losses ..... that were even more severe than the most pessimistic forecasts ..... The lessons raise new concerns about the viability of the financial system in Thailand and make further bank closures appear inevitable .... Since the crisis kicked off last July (1997) with the flotation of the Thai baht, financial authorities have already nationalized four banks and forced the closure of 56 finance companies. The combined losses of Thailand's 15 commercial banks for the first half of 1998 total 112 billion baht (\$2.75 billion) while almost all had posted profits for the same period last year." (HTI, July 23, 1998, p.1).

South Africa is now suffering from the aftershocks of the Asian crisis. "It seems that for emerging economies there's no shelter from the aftershocks of East Asia's financial crisis. Now the tremors have reached South Africa, shaking its economy and adding to the woes of the African National Congress Government ..... But last week, rattled by investor nerves and vulnerable to global financial speculation, the South African currency plunged to an all-time low of less than 16 cents to the dollar. That free fall sent local markets into a trading frenzy and forced the South African Reserve Bank to jack up interest rates to a 13-year high." (TIME, July 13, 1998, p.53). The higher interest rate will slow growth and will boost an already very high unemployment level.

The OPEC countries, many of which have one-crop economy and totally dependent on their oil revenues, saw their income coming down as oil prices came down to almost 50% of what it was just before the 1997 July Asian crisis. Many of them are facing deficits and economic slowdown. Russia's economic collapse was accelerated by the drop of its oil revenues, which made most of its foreign currency earnings. Kuwait was rumored as contemplating a devaluation of its national currency and so some other Middle East oil producers. Venezuela's foreign currency earnings has decreased to an alarming level and some believe the devaluation of its currency is a certainty in the near future. Others fear a Venezuelan economic crisis that may take with it other South American economies. But why did the oil prices plunged so far so quickly! Who controls and sets the oil prices! Now, the U.S is in command of international oil. The revenues of oil are all in U.S dollars. The price is determined as was contemplated in the earlier studies on globalization. In the Grand Area plans, it was concluded that other countries should provide the United States with its needed raw materials in sufficient quantities and prices that will cause "no stress" to the American economy.

In Yemen: whose small oil production is a main source of foreign currency, and who had to raise prices of gasoline and other petroleum products and removed subsidies on other commodities to meet IMF demands, tribesmen and security forces had been fighting since June 19 when prices of gasoline were raised. By July 7 1998, the Yemen Times reported that a week earlier 52 people had been killed and 214 injured in those clashes.

In Hong Kong: the economy contracted by a worse-than-expected 2.8% in the year to the first quarter. Share prices came down to their lowest levels in 3 years!

In China: The effects of the South East Asian crisis is now evident on China. Investors are not as forthcoming as in 1997. A dramatic slow-down in exports is pulling down growth. Export growth is expected to be a third of what it was in 1997-down to 7.6% from 21%. The GDP growth is expected to be no more than 6% even though a minimum of 8% is needed to create new jobs and prevent social unrest. For example exports to South East Asia came down in the first half of 1998 by 12.9% and to South Korea by 31%! To stimulate the economy China is now reverting to Japan-like methods of massive infrastructure investment. The re-forming of the economy is now being slowed down. The head of the World Bank office in Beijing says that the statements of the top Chinese leaders "certainly suggest there has been a shift in attitude." The South East Asian crisis is putting pressure on the Chinese currency to devalue, and if that happens, it will cause further economic turmoil in Asia, and the vicious circle may keep going on.

The world is now undergoing a global perestroika that is destroying old structures even before creating new viable ones. If we want to judge where this global perestroika may end, let us look at Gorbachev's perestroika, extrapolate and compare notes. A very unpleasant conclusion may be drawn.

If we called the destructive power of financial speculative economy as infofinancial nukes, many are now coming to the same conclusion. As quoted by Agence France - Press and printed on the July 28, 1998 issue of HTI, China's Foreign Minister, Tang Jiaxuan, told a security forum of Asian countries that was held at Manilla that strong measures must be introduced against excessive financial speculation such as those which triggered the Asian crisis and he likened the damage from the speculative attacks on Asian currencies to that of wartime devastation. He said: "The East Asian financial crisis broke out ferociously and has caused such tremendous damage, which is no less than that of wars".

Global wars, that it.

"In a nation that was proud of hard work, strong families, close-knit communities and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does, but by what one owns. But we have discovered that owning things and consuming things does not satisfy our longing for meaning. We have learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose".

U.S. President Jimmy Carter  
*Secrets of Temple*, p.14

"It is ironic that the closer the corporate libertarians move us toward their ideological ideal of free-market capitalism , the greater the failure of the market, for the same reasons that the Marxist regimes failed: Both lead to the concentrations of economic power in unaccountable centralized institutions - the state in the case of Marxism, and the transnational corporation in the case of capitalism .....  
Both take a narrow economic view of human needs that undermines the sense of spiritual connection ...."

David C. Korten  
*When Corporations Rule the World*  
Kurmarian Press & Berret-Kochler Publishers, Inc. 1995

## *Chapter 22*

### WANTED: IN GOD, NOT MONEY, WE TRUST

Both free-markets global capitalism and Marxism share the same values system: a secular world, materialism being its dominant value and economic growth being the purpose of human societies. Both elevated economic growth to become their religion. Their main difference was in the ownership and distribution of wealth. Marxism was a by-product of capitalism's industrial revolution, and a 70 years warning to the 500 years old capitalism that it failed to produce peace on earth or peace of mind to its adherents. After the industrial revolution, American capitalism created a new culture of its own that subverted values, customs and religions. The new culture promoted consumerism, acquisition, and it unleashed human desire. This highly individualistic and materialistic culture promised happiness on earth. Instead it produced lots of unhappy people. The 15th edition of Encyclopedia Britannica Inc of 1974 had this to say under the title : The People of the United States:

"As they enter the 1970's the majority of the people of the United States had achieved a relatively high level of material comfort, prosperity and security. They appear to be, however, in a bad and divided mood.

They were worried about crime, racial injustice, urban decay, the war in Vietnam, environmental pollution, narcotics, alienation among the young, and the high cost of living. Moreover, they were unhappy: to a public - opinion - poll question that asked "Do you believe that life is getting better or worse in terms of happiness?. Nearly half (49 percent) of the respondents who live in the country in which the standard of living is the highest in the world glumly answered "worse".... more than half of all Americans say, according to opinion polls, that they (often feel bad) about the poverty and hunger that exist in the United States".

How about people's feelings after the implosions of USSR & Marxism and the roaring stock market to record highs, and high economic growth rates, high productivity, low inflation? In 1997 how does the majority of Americans feel? (Business Week, March 11, 1996, p.32) reported that in constant 1996 dollars the average American household income was lower in 1996 than in 1974. It quoted an unemployed 50 year old chemist (PhD) that all the economic indicators are up except his. "It is not just the unemployed ..... who are experiencing some cognitive dissonance these days. Real wages have been stagnant for most of the past two decades. The distribution of income among Americans has become more unequal over the same period. For most Americans, the work place has become a far more capricious place. During the past decade, corporate America has restructured, downsized, right-sized, and reengineered millions of people out of their jobs, while putting the squeeze on the wage of the remaining workers."

The irony is, however, that the one percent class and the owners of wealth and power structure are themselves the least happy as they indulge in one anxiety after another. They dwell between the two anxieties of greed and fear. This makes their system one that guarantees unhappiness to all, or "your money back."

If this is the situation of capitalism at its best, should it be the model to be presented to the future generations?

This model of materialist-value capitalism is producing crime. Organized crime & otherwise. In the city of Los Angeles, an NBC Dateline reported in 1997, that the city has 150,000 armed gang-members! Most are teenagers. About 900 people get killed annually by gangs, some 25% of whom

were innocent bystanders. In the culture of materialism, economic growth and democratization of desires, these teenagers are fed with a culture that promotes violence and crime, simply because it sells, it makes money, & money is the ultimate measure of success. A Los Angeles based Inter-Scope Records, partly owned by Seagram conglomerate, has sold more than a million copies of its album "Antichrist Superstar" then the latest album from satanic rock band (Marlyn Manson, Readers Digest, April 1997, pp.125,126). The band takes its name from its lead singer, whose name combines those of Marlyn Monroe who committed suicide & mass murderer Charles Manson. "Lyrics of songs .... dwell on murder, suicide and despair. Many are unprintable."

Crime & violence became Hollywood's gospel. Studies show that by the time a kid reaches 18, he has seen 26,000 murders on TV. A 15-year-old was quoted by (TIME, June 12, 1995, p.25) as saying, "I liked the part in Pulp Fiction where the guy points a gun and says a prayer from the bible and then kills every body .... you hear the gun go brrrr. It's cool." This kid along with all kids in the United States of America can hear a murderer say a prayer from the Bible in a murder scene by Hollywood, but he may be denied the same privilege of hearing it at school. No religion is taught at schools.

In infofinancialism money is the ultimate measure of success. Little was done by Washington to control the tobacco industry for 33 years - after the U.S Surgeon General decided in the mid-1960's that enough scientific evidence existed to support the assumption that smoking was both lethal and addictive. (TIME June 30 1997) reported that "Americans have prematurely lost 4 million collective years of life annually in our worst if routinely accepted, public health scandal. (The tobacco executives in what amounted to a premeditated conspiracy to disinform the American people, continued to deny what they and their scientists, according to a critical mass of internal documents unearthed during the past decade, knew to be true about the addictive and fatal nature of their product". Some 400,000 U.S citizens died each year from smoking. Between the 33 years in which the Surgeon General had persuasive evidence about the lethal qualities of Tobacco and the time some half-hearted legislators were pushed to regulate to some extent the Tobacco industry, some 13,200,000 American died, or have been murdered.

The latest legislation on tobacco were not initiated by the regulators or the legislators of Washington, but by State Attorneys who are less subjected to the lobbying of big tobacco and are somewhat more free from the Washington's decision-making process but which is dominated by monied interests and their lobbies.

Capitalism produced inequality among people within one nation and inequalities among different nations. The top 1 percent of Americans own the following percentages of the total assets of the United States as of 1992 (UNDP, Human Development Report 1992, Oxford University Press):

Stocks:	49.6 % of total U.S stocks.
Bonds:	62.4 % of total U.S bonds.
Trusts:	52.9 % of total U.S trusts.
Business equity :	61.6 % of total U.S business equity.
Non-Home Real Estate:	45.9 % of total U.S non-home real estate.

In 1992 the top one percent of Americans owned 45.6% of America's total financial wealth, and the bottom 80% of Americans owned only 7.8% of the total financial wealth.

Worldwide, inequality among nations is on the increase. Three hundred fifty-eight billionaires in the world (from Richard J. Barnet "Stateless Corporations: Lords of the Global Economy", The Nation, December 19, 1994, p.754) enjoyed a combined net worth that equals the total net worth of the world's poorest 2,500,000,000 people (2.5 billion)! Capitalism and transnationalism produced a one percent class in all nation-states that have interconnected interests. Such interests are placed above national agendas. They are the "owners" of the power structure in the nation-states. One family in Sweden, the Wallenburgs have holdings in companies that account for 40% of the Stockholm stock exchange Index. The Investor Holding Co - 41% owned by the Wallenburgs family own or has large stakes in companies that has an annual sales of about \$100 billion (BusinessWeek October 20,1997, p.20): Therefore one family dynasty control global annual sales that exceeds the combined GNPs of the oil rich countries of Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, and the United Arab Emirates.

An artful blending of money power, media power and marketing power resulted in the potential of mass brain-washing in which one version, and one version only is presented. Such version has always been that of those who owned the power structures.

The 3 M's power created the BBB syndrome. An age of disinformation was blended with the age of information. Re-forming economies even under pressure is termed reform. One - sided "perceptions" are continuously fabricated to serve the purpose of the disinformation era masters. Such disinformation can be served to a friend or maybe served to an enemy, since what matters is it must serve the agenda of infofinancialism.

Through the availability of unlimited financial resources (money), polling and targeted-group studies and the development of messages to reach the targeted groups, (marketing), and through artful use of television & other communications channels (media) an image is created to a person or to an issue. The image makers will promote the elections of the image of a politician or an office seeker, not the real politician or the real office seeker himself. Through these superb mixing of the 3 M's, people who are trusting by nature, or who have no time to research and scrutinize the images or information get brainwashed by the BBB syndrome: Bullshit Baffles Brainpower. One cannot but admire the superior marketing and packaging of peoples and ideas by the czars of capitalism.

Fairness was promoted by all religions. Actually, even in the Japanese socialist state - capitalism fairness is considered as important as economic growth. Not so in Anglo-American infofinancial capitalism. Madeleine Albright, the U.S. Secretary of State at the second Clinton Administration was totally within western capitalism ethics when she declared that "even though the consequences for workers and families caught in the middle can be difficult and unfair" as a result of IMF medicines, they are justified and necessary for economic recovery. Then fairness is incidental in the Anglo-American capitalism whether in its deregulated form during the days of Albright or the more regulated days of Keynes. Ironically, unfairness within capitalism is taken so much for granted that Keynes said in his published works: "We must pretend to ourselves and to everybody else that fair is foul and foul is fair..." Unfairness, is so much embedded in infofinancial capitalism that it doesn't leave home without it.

Most religions had religious injunctions against usury which was declared a sin as far away as the time of the Book of Genesis. Islam prohibited usury and the storage of gold and money for whatever reason away from production means. Until the Middle Ages it was taught in most of Europe by the Catholic Church that interest (at any rate) was a sin against God. During the industrial revolution stages, outlook on interest and usury was dampened but usury was differentiated from interest rates and usury as such was banned in the United States. Usury definition was eventually modified to mean: lending at ruinous interest rates. It became accepted that capital be justly rewarded, but it was also accepted that it was not free to set conditions that will guarantee the failure of the borrower. Keynes argued in his famous work "The General Theory of Employment, Interest and Money" that: "Avarice and usury and precaution must be our gods..... For only they can lead us .... into daylight." Thus 20th century economists declared officially that money, even usury is not only a sin to God, but to them it is god himself! Even after the Keynesian orthodoxy was attacked, the monetarists took over from where Keynesians left. In 1980, at the start of the age of deregulations, congress legalized usury along with other set of legislations of deregulation. As a result, the ceiling set by state and local governments on home mortgages were abolished. Usury, just like sex became a private affair between adult consenting partners and government has no business to intervene.

OECD, the Organization for Economic Cooperation and Development made a study on Islam's unique economic vision and how it differed from both capitalism and socialism. The study reported : "Islamic concepts are different from capitalism by their opposition to excessive accumulation of wealth and contradiction to socialism, by their protection of the rights to property including ownership of the means of production. A true Islamic society must not be an arena where opposing interests clash, but rather a place where harmonious relations can be achieved through a sense of shared responsibilities. The individual's rights must be equitably balanced against those of society at large".

In the age of deregulations, not only usury, but the deregulation of ethics and social values went side by side with economic deregulation. Gambling was sponsored by many state and local governments through public lotteries. Abortion, to Catholics a sin, was legalized. The marriage

institution was assaulted, sex and pornography became free, and a new era of spiritual and ethical vacuum was accelerated.

The basic problem with materialistic systems is its contradiction to human nature. According to Maslow's hierarchy, people have basic needs that are physiological - their need for food, shelter, sex ...etc., -- and secondary, i.e. psychological - which are spiritual - such as self-actualization and self-esteem. The spiritual needs are classified at top of the Maslow pyramid. After the basic needs are well-secured psychological and spiritual needs become the more important. H.L. Hunt said in the 1970's when he was among the richest people in the world: "For practical purposes, someone who has \$200,000 a year is as well-off as I am." To the extremely rich, money becomes a measure of power and self-actualization, while to majority of the poor, it is still an important tool to secure their basic needs.

The paradox of capitalism is the fact that it is a by-product of the scientific vision that divorced religion and spiritual values within its ideology or processes. Yet, it revolves around money, and money became its religion, even though money is nothing but an illusion. A shared illusion that a piece of paper as a bank note, or an electronic impulse as in electronic money is something real and alive. Such illusion has progressively become a pure abstraction such as numbers in a bank or an impulse into a computer. This illusion started with accepting commodities as money such as defined volumes of wheat or cattle. It then became related to shining metals as gold and silver. Then it became money for paper, paper for paper, plastic cards and electronic signals.

Many myths were created. Money illusion elevated it to become a living animal that grows with time even beyond the death of its owner. To many, money became a second-self, that can give security to the other self. As men delinked themselves from having faith in God, they trusted in money instead. But money only gave them, including the rich and famous, more anxiety and insecurity.

The market-oriented desire-motivated culture that was promoted by Anglo-American capitalism, specially after the industrial revolution, did not deliver its promise. The promise was happiness through acquisitions. Probably what Lee Atwater wrote (Life-Feb 1991) expressed the point very well. He wrote "my illness helped me to see that what was missing in society is what was missing in me: a little heart, a little brotherhood. The 80's were about acquiring-acquiring wealth, power and prestige. I know. I acquired more wealth, power and prestige than most. But you can acquire all you want and still feel empty..... It took a deadly illness to put me eye-to-eye with that truth, but it is a truth that the country, caught up in its ruthless ambitions and moral decay, can learn on my dime. I don't know who will lead us through the 90's, but they must be made to speak to this spiritual vacuum at the heart of American society, this tumor of the soul."

Many of the human scientific inventions came by coincidence whether it was Newton's apple and the law of gravity or the invention of antibiotics. Even after the master planner of the universe directed the human society to discover some of his secrets, many including leaders of institutions that should have known better missed the significance of these inventions. Most of today's information-age tools were dismissed by the leaders of science and business at the time of their inventions. Maybe those quotations from TIME Magazine will illustrate the point:

- This 'telephone' has too many shortcomings to be seriously considered as a means of communications. The device is inherently of no value to us.
- Western Union Internal Memo, 1876
- Heavier - than - air flying machines are impossible.
- Lord Kelvin President Royal Society, 1895
- Everything that can be invented has been invented.
- Charles H. Duell , Commissioner, U.S Office of Patents, 1899
- Air planes are interesting toys but of no military value.
- Marshal Ferdinand Foch , Professor of Strategy, Supperieure de Guerre.
- Professor Goddard does not know the relation between action and reaction and needs to have something better than a vacuum against which to react. He seems to lack the basic knowledge ladled out daily in high schools.

New York Times editorial about Robert Goddard's revolutionary rocket work, 1921

- The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?

David Sarnoff's associates, in response to his urgings for investment on the radio in 1920's

- Who the hell wants to hear actors talk???
- Harry M. Warner -- Warner Bros, 1927
- I think there is a world market for, maybe, five computers.
- Thomas Watson, Chairman, IBM, 1943
- There is no reason for any individuals to have a computer in their home.
- Ken Olsen, President, Chairman & founder of Digital Equipment Corp. 1977.

The world has a master planner called differently in different languages. He is called God in the English language, Allah in Arabic, Dio in Italian. Science could not define him, but is trying to learn some of his rules. It was one of the greatest scientists of the 20th century Albert Einstein who said "Science without religion is lame. Religion without science is blind." (Newsweek, July 27, 1998) In the materialistic "scientific" society, more physical illnesses are now caused by spiritual, i.e. psychological, causes than actual physical ones. Science is a very useful tool but it is not a very good religion or a very good way of life. Even for those who admire science, there is much science to admire by looking within themselves. Just looking at the muscle that we call heart which is a pump like no other on earth. Each and everyday it beats over 100,000 times. It takes no rest. It has no spare. What makes this muscle tick is the body commander-general: the brain. And the brain controls this muscle through an elaborate accurate electrical control system that was in operation since time immemorial, whereas electricity was discovered just about one century ago. This muscle pumps blood at constant pressure head going through almost one hundred thousand (100,000) kilometers of blood vessels in a human body.

A few hours after the captain of the Titanic told his passengers that his mighty ship was so strong not even God can sink it, it sank deep in the Atlantic ocean.

Christopher Columbus thought the world's diameter to be 75% of what actually it is, and through wrong mathematics and what other approximate scientific knowledge he acquired, he sailed for India - to discover America-America was discovered due to bad mathematics and rough scientific data! Both faces of the materialistic vision proved a failure. Both have a "spiritual vacuum" and a "tumor in their soul".

Market capitalism and its twin infofinancialism, is characterized by a rich-man poor-man society, is not affected by ethics, because the market forces alone are wild and flawed. Judicious outside interventions are needed, otherwise, a state of disequilibrium among wages, production and prices will occur leading to economic, social and political struggles between capital and labor, between consumer and producer, and between rich man and poor man. The wildness of the market forces must be tamed by the regulatory forces of ethics and spiritual values. Both such forces do not exist in market infofinancial capitalism. The Economist reported in August 1998 that, "Over a three-year period, 30% of Americans were below the poverty line for at least two months, though only 5% were stuck there for two whole years. More than 41 million Americans now have no health insurance, a figure that has been rising by one million a year." According to the Census Bureau as reported by USA Today (September 25, 1998, p.1), "35.6 million Americans continue to live in poverty. The trend of inequality between rich-man poor-man continues to increase, as the income gains of the richest 5% of Americans rose in 1997, over five times that of the poorest 20%."

A new system that mixes economic growth with fairness, a free enterprise system that promotes the freedom of the individual as long as it does not trespass on the freedom of others or the group, a new system based on "In God, not money, we trust" must be sought.

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