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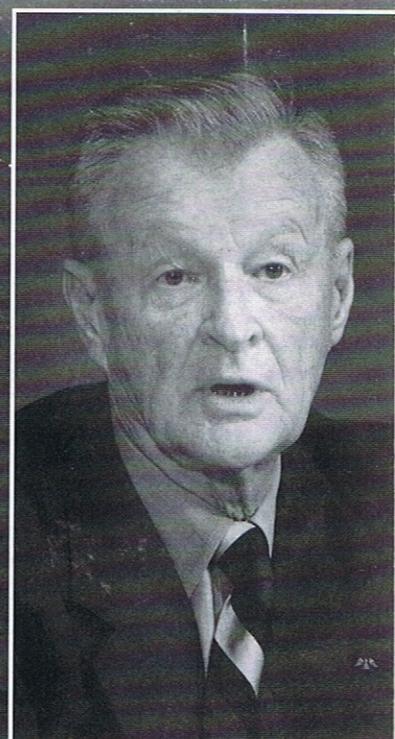
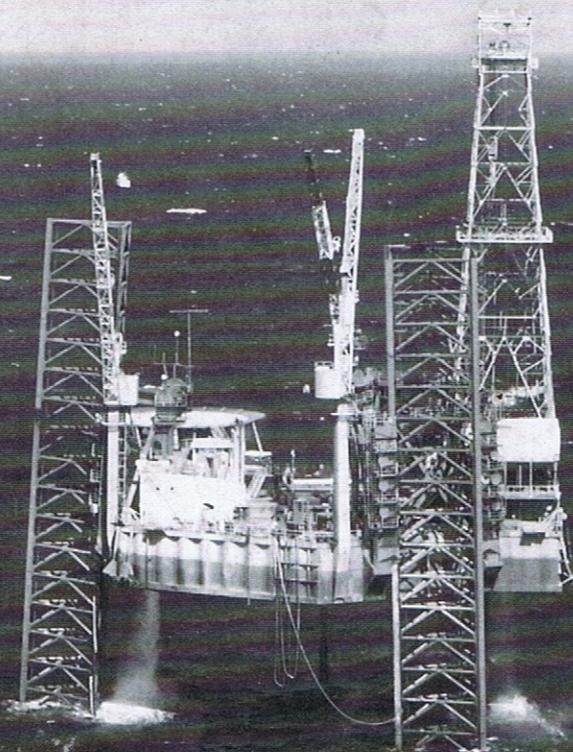
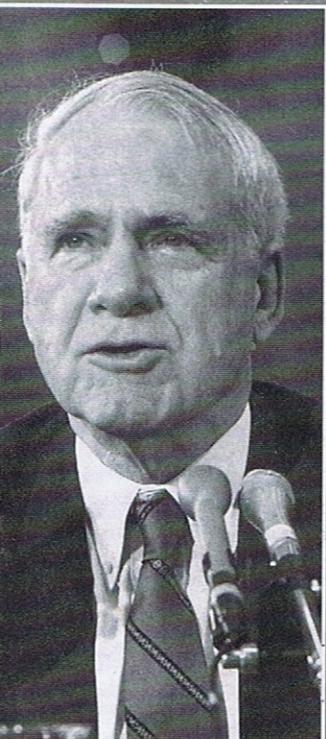
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Repeal of Glass-Steagall is a terrible mistake
LaRouche calls for rebuilding the FDR coalition
Cambodia genocide: Kissinger, Brzezinski in the dock

**Brits go for raw materials grab
before the bubble pops**



Banking deregulation: an assault on America's national sovereignty

by John Hoefle

On Nov. 12, 1999, President Bill Clinton signed the Gramm-Leach-Bliley "Financial Modernization Act" into law, effectively repealing restrictions on banking passed in the mid-1930s and in 1956. The best-known of these restrictions, and the one most hated by the international financial oligarchy, was the Banking Act of 1933, commonly known as the Glass-Steagall Act. This Act was passed under the direction of President Franklin D. Roosevelt, as an explicit measure to limit the power of the international bankers over the U.S. economy. As such, it was a decidedly *political* act, an assertion of national sovereignty, and was widely understood to be so by both the bankers and the U.S. population.

The Gramm-Leach-Bliley Act has nothing to do with bringing an "outmoded" regulatory system into the modern era, and everything to do with the global assault by the British-centered financial oligarchy on nation-states around the world. The repeal of Glass-Steagall is just as much a political act as was its passage. The issue is who runs the country: the financial oligarchy or the elected government.

The bankers' claim that they are unfairly hampered by overly restrictive regulations is more than absurd: It is an outright lie. For proof, one need look no further than the extraordinary level of off-balance-sheet derivatives bets of the big banks. Chase Manhattan Corp., with \$31 in derivatives bets for every dollar of assets, is indicative of the extent to which the U.S. commercial banking system has been turned into a speculative casino. Far from being over-regulated, the inmates are running the asylum, and their alleged regulators.

No nation is sovereign, which does not control its own credit. Alexander Hamilton, the first U.S. Treasury Secretary, understood this, and used the credit-generating capacity of the young United States to build the country up to the point that it could enforce its independence from Britain, and become a beacon of hope for the peoples of the world. The financial oligarchy also understood this, and has fought a continuous battle to force the United States into a British-style system, where the economic royalists control government finances. Under the British System, the government does not issue sovereign credit, but rather borrows money through the oligarchy's financial markets.

The distinction is crucial. Under Hamilton's American System, the Federal government issued credits to the produc-

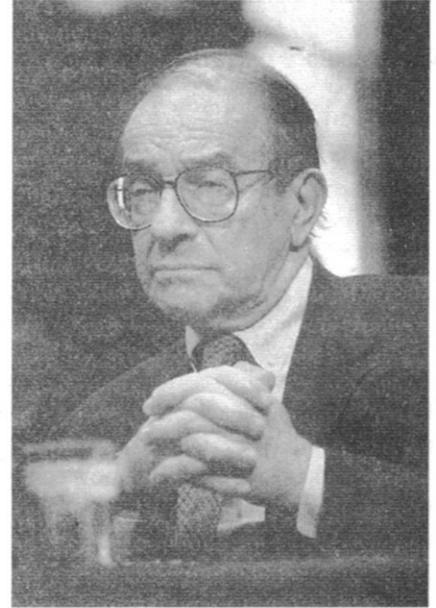
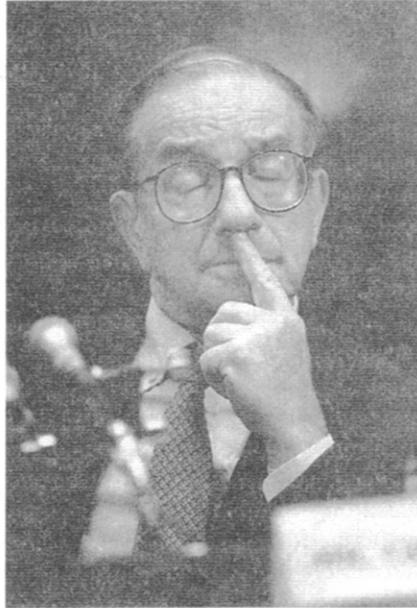
tive sector, providing funds to increase those activities which create wealth and provide for the General Welfare; the banks were merely intermediaries between the government and the people. Under the British System, the government borrows money from the oligarchy's financial markets, giving the oligarchs substantial control over government expenditures, and forcing the government to give the oligarchs a cut of every dollar of Federal spending.

To hide the strategic nature of deregulation, the oligarchs and their flunkies attempt to portray the repeal of these essential protections as "technical" in nature, merely a matter of updating old and largely irrelevant laws, to bring the law into the modern era. Naturally, they claim that the laws should be changed not to benefit the banks, but to benefit the public. They're just looking for ways to save money for the "little people," they claim.

Sen. Phil Gramm, the Texas Republican who heads the Senate Banking Committee (and the Gramm in the Gramm-Leach-Bliley Act), pushed this line in an Oct. 22, 1999, press release announcing that the Senate, the House, and the Clinton administration had reached an agreement on the deregulation bill.

"The financial services modernization legislation is the most important banking legislation in 60 years," Gramm asserted. "The people it will benefit most are working families. . . . The hallmark of the bill is that it will make an array of financial services to every American consumer that will provide lower prices and one-stop shopping at financial supermarkets in every city and town in the country."

But Gramm (whose wife, Wendy Gramm, significantly deregulated the derivatives markets during her stint as head of the Commodity Futures Trading Commission) is at heart an oligarch, or rather an oligarch wannabe, who prefers the British System to the American System. In September, Gramm issued a press release complaining about the Clinton administration's attempt to protect the Community Reinvestment Act, which Gramm vociferously opposed. The administration's action, Gramm fumed, "shows how vulnerable a regulatory agency is when part of a politically driven entity like the Treasury Department Regulators exert extensive power as it is. When politics is injected into the regulatory process, as happened in the Comptroller's office, the process becomes abusive. This is vivid evidence of the danger posed



Federal Reserve Chairman Alan Greenspan has presided over the deregulation of the U.S. banking system, helping to create the biggest financial bubble in history. Now, the repeal of the Glass-Steagall Act removes one of the key remaining points of regulation, which had protected depositors from the manipulations of Wall Street.

by the administration's proposal to take regulatory power away from the independent Federal Reserve and give it to the Treasury Department. The proposal is a political power grab that must be defeated."

The trick used by Gramm and other mouthpieces for the oligarchy, is to pretend that the oligarchy does not exist, and blame all problems on government. In such a view, individual freedom is expressed through the "free market," and all attempts by government to regulate the market is an assault on that freedom. Thus, protecting the power of the banks to do whatever they want, is transformed into a battle for the rights of the "little people" against "oppressive government." The battle to increase the ability of the big international banks to loot the population is transformed into a fight for "consumers" to have access to "one-stop financial supermarkets." The "little people" who win such battles, win the right to become human sacrifices.

Past the point of no return

For the past few years, the commercial banks, investment banks, and insurance companies have all heavily lobbied Congress for deregulation, with that lobbying backed by significant campaign contributions. Each year, Congress was prepared to give the financiers what they wanted, but the three sectors could not agree on the precise terms of a bill. That is, they all wanted to make sure that the new law favored them, over the other two. Finally, in the autumn of 1998, with the global financial system in a near meltdown, an agreement was reached and a bill made its way through Congress, only to be blocked by Senate Banking Committee member Phil Gramm.

The word in Washington was that then-Senate Banking Committee Chairman Alfonse D'Amato (R-N.Y.) was likely to lose his reelection bid; if so, Gramm would inherit the chairmanship of the committee, a lucrative position with banking reform on the agenda. D'Amato lost, and the rest, as they say, is infamy.

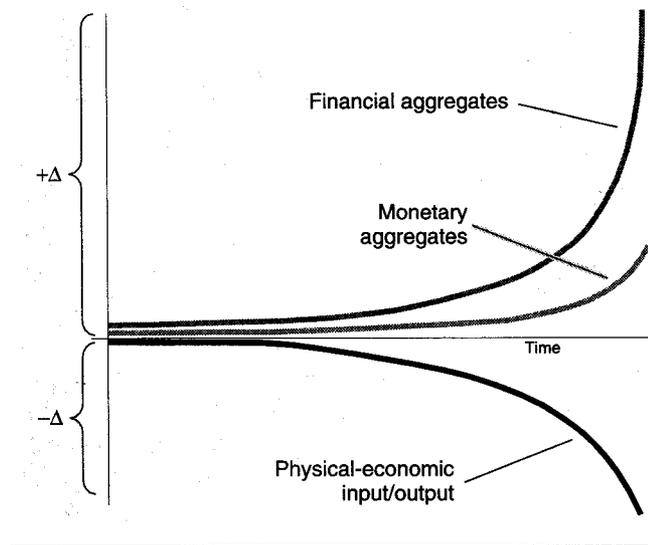
The other obstacle to the passage of the deregulation bill was the insistence of Treasury Secretary Robert Rubin that the new powers to be given to banks be placed inside the banks themselves, instead of in holding-company affiliates. The issue was one of regulation: The Treasury's Office of the Comptroller of the Currency regulated national banks, whereas the Federal Reserve regulates the holding companies. Rubin wanted the government, rather than the Fed, to control the new activities. Rubin stepped down in July of this year, but the Gramm-Leach-Bliley bill concedes some of his demands.

The question remains as to why the banks, securities firms, and insurers finally reached an agreement, after years of infighting. The answer is simple: fear, the fear that their system was spinning out of control.

The problem facing the financiers can best be illustrated by Lyndon LaRouche's Typical Collapse Function (**Figure 1**). The top of the three curves, financial aggregates, represents the hyperbolic growth of financial claims against the economy—stocks, bonds, debt, derivatives, and other forms of paper—which must ultimately be paid. The middle curve represents the monetary aggregates, money created by the central banks to provide the liquidity necessary to keep the pyramid scheme going. The lower curve represents the de-

FIGURE 1

A typical collapse function



cline of the physical economy, as measured by production and consumption of a market basket of necessary goods, calculated not in dollar terms, but in units per capita, per household, or per square kilometer, as appropriate.

These are not three independent curves, but rather represent one function: As the financial aggregates grow, the monetary aggregates increase to provide the liquidity to roll over the rising level of unpayable claims; the money to support this growth is taken out of the productive sector, causing the market basket of physical goods to shrink correspondingly. The relationship is that of a parasite and its host—the parasite grows by feeding off the host, just as the bubble grows by looting the physical economy.

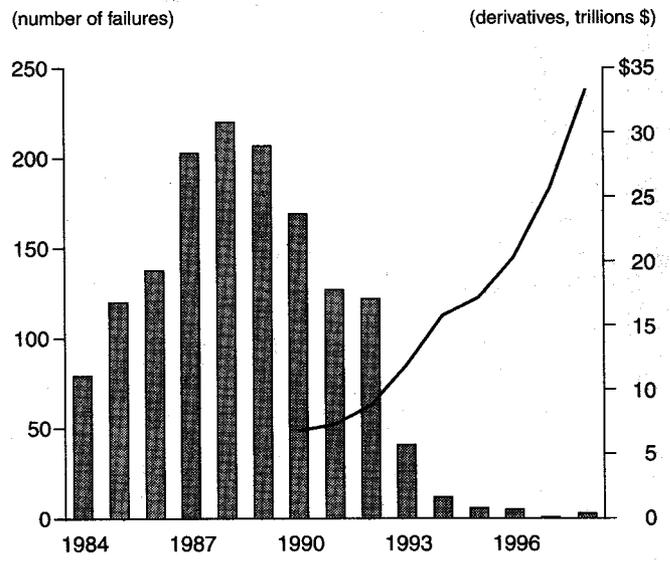
The problem with such a system, is that the faster the bubble grows, the faster it destroys the physical economy upon which it ultimately must turn, for payment of its claims. Eventually it reaches the point where pumping more derivatives into the bubble, fails to prolong the life of the system, and a breakdown begins.

In the late 1980s, the U.S. banking system collapsed with the popping of the real estate and junk bond bubbles. Not only did the S&L sector collapse, but the commercial banks started failing at record rates (Figure 2). To counter this, the bankers and the Fed made a fatal mistake: They jumped whole hog into the derivatives market. While the Federal Deposit Insurance Corp. (FDIC) keeps no derivatives figures for years prior to 1990, the graph shows a striking pattern; it was the flight into derivatives, helped by a flood of central bank liquidity and a “see no evil” regulatory policy, which created the illusion that the banking system had recovered.

Derivatives, despite all the hoopla about “risk management,” are essentially a vehicle for rolling over the unpayable

FIGURE 2

Bank failures and derivatives



Source: Federal Deposit Insurance Corp.

claims of a bankrupt system, into even larger and more unpayable claims. The use of derivatives has turned the global financial system into a giant casino, which must ultimately collapse.

LaRouche, or bust

That collapse, Lyndon LaRouche observed recently, will take one of three forms: deflationary collapse, in which hundreds of trillions of dollars of paper values simply evaporate in a chain reaction; a hyperinflationary blowout, in which the money suddenly loses its value, as happened in Weimar Germany; or a breakdown of civilization into widespread warfare. Whichever form the collapse takes, the financial system has entered a boundary condition from which it will not, it cannot, recover. As the recent debacle at the World Trade Organization meeting in Seattle, and the moves in Germany and France to resist globalization show, the political power of the oligarchy is beginning to crack. The attempt is being made to hold the financial system together at all costs, to prevent the chaos which will occur when it breaks, but the measures used in the past to hold the system together no longer work. Pumping up the bubble—the aim of deregulation—will only make matters worse, and bring about the very collapse the bankers fear.

The only alternative is the LaRouche proposal, of putting the financial system through a bankruptcy reorganization, then using sovereign credit to rebuild the productive sector. We can build our way out of this mess. It’s LaRouche, or chaos.

How the Glass-Steagall Act struck a blow against Wall Street's power

by Richard Freeman

The Nov. 12 decision by President Bill Clinton, to sign into law the Gramm-Leach-Bliley "Financial Modernization Act," will take the nation backwards, to the era of the 1920s, when very little financial regulation existed, and the Wall Street-City of London financier oligarchy ran America's financial policy, and a good part of its economic policy, as its own fiefdom. The oligarchy used this power to engage in a speculative orgy that culminated in the Great Depression.

The Financial Modernization Act takes aim at the Glass-Steagall Act, which had passed the U.S. Congress by overwhelming margins: In June 1933, the U.S. House of Representatives passed the Act by a vote of 262-19; the Senate, which had been highly contentious on votes on other measures, passed the Act by acclamation. President Franklin D. Roosevelt, who, along with other patriots had pushed for the Act, signed it into law on June 16, 1933.

The principle that guided the Act's passage was that of national sovereignty: that a nation has the right and obligation to exercise control over its financial and economic affairs, shaping them to provide for the general welfare of current and future generations, and against the control by a financier oligarchy.

The Act was one of a series of pieces of legislation which attempted to undo the most egregious features of financier speculation and wanton criminal financial activity.

The Glass-Steagall Act targeted a crucial aspect of banking, and indeed a very sore point with the bankers, as attested to by the fact that the bankers have spent billions of dollars, and 65 years, trying to undo its provisions.

Glass-Steagall split commercial banking from brokerage/investment banking. Any financial institution engaging in both activities, either had to split into two, or forgo one or the other activity. No commercial bank was allowed to own an investment bank, and vice versa. No commercial bank could underwrite, deal with, trade, or own for its own account, securities—since that was the domain of the investment banks. No investment bank could take individual small customer deposits, which was the domain of the commercial banks.

To the outsider, the split of these two activities may seem arcane; but it actually addresses two very important matters.

First, if a single institution is allowed to carry out commercial banking and investment banking (and insurance) under

one roof, a very great amount of power is concentrated in that institution's hands. Today, if the repeal of Glass-Steagall were combined with the repeal of the McFadden Act—which forbids interstate banking—then the United States could end up with 15 to 20 super-institutions, which would control every aspect of America's financial life. Such a process was advancing rapidly in the 1920s, and Glass-Steagall helped to halt it.

Second, by placing different pools of money in a single institution—pools from commercial banking, from investment banking, from insurance—one is creating the temptation that that institution will commingle the funds, and use them for whatever it pleases. This violates a basic tenet of banking. A commercial bank is, by definition, simply a *deposit-taking institution*. When an individual puts his money into a savings or checking account in a commercial bank, he expects to get some interest, but he is putting the funds there *for safe-keeping*. He is not trying to *invest* the funds, which is the purpose of an investment bank/brokerage house. The individual does not want the funds to be commingled with other funds, without his permission.

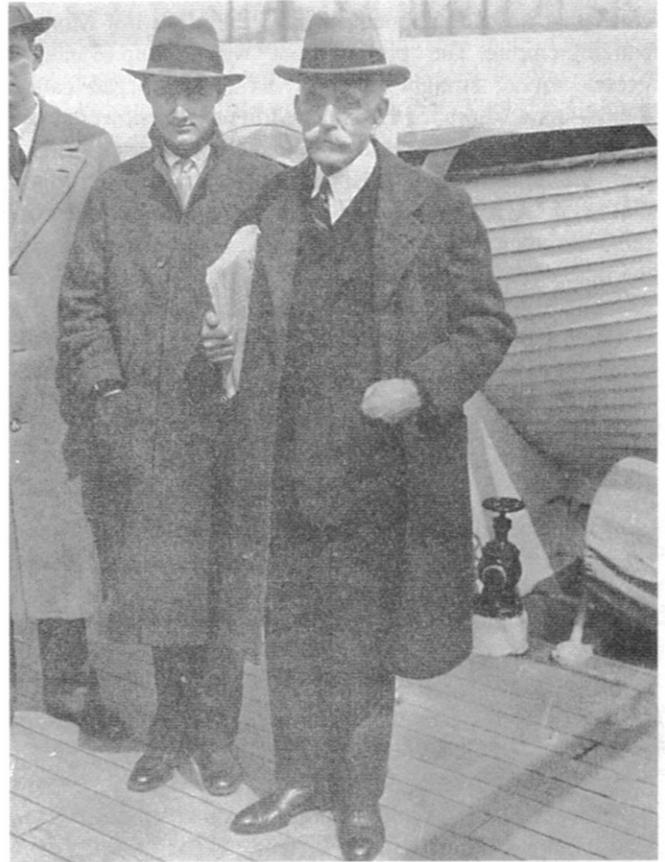
Now, precisely during the 1920s, these two matters were abused by the bankers. The banks were building up enormous power, and they were using funds as they saw fit. It was this abuse, as Franklin Roosevelt and other patriots saw, that had contributed mightily to the 1929-32 stock market crash, the breakdown of the banking system, and the physical economic depression which had left millions of people destitute.

Today, the bankers argue against the Glass-Steagall regulations with the lie that they are "outmoded." Ironically, the exact opposite is true: Such regulation is needed now more than ever. While up to now, the banks have not been able to unrestrictedly commingle commercial banking, investment banking, and insurance, they have nonetheless built up practices that are as deadly as anything that existed during the 1920s. The growth of derivatives is one such deadly practice (see accompanying articles). If one adds, to the highly unstable, speculative atmosphere that exists today, the hitherto outlawed practices of mingling commercial banking with investment banking and insurance, this will accelerate the rate of the blowout of the financial system. This will also accelerate the looting of the nation.

This article will look first at the conditions that prompted



Among the principal creators of the speculative bubble of the 1920s were Treasury Secretary Andrew Mellon (shown on the right, with Paul Mellon), and banker John Pierpont Morgan, Jr. (above). The aim of the Glass-Steagall Act, and related legislation passed during the Roosevelt years, was to prevent such financial manipulations from ever again leading to a great depression.



the Glass-Steagall Act: the bankers' raw abuse of political power, their financial pyramids, and their violation of the separation of commercial and investment banks. Then it will examine the Act itself. Next, it will look at the attempts to undermine the Act, and finally, compare the conditions of the 1920s with those existing today.

The role of the House of Morgan

A well-publicized series of Senate Banking Committee hearings helped to bring to public attention the type of unrestrained speculative activity and criminal activity, including the foolhardy mixing together of commercial and investment banking activities, which Glass-Steagall would later redress.

The hearings started in 1932, reaching their high point during the spring and summer of 1933. They are alternatively called the Fletcher hearings, after Sen. Duncan Fletcher (D-Fla.), who chaired it in 1933, or the Pecora hearings, after the colorful and persistent chief counsel, Ferdinand Pecora, who conducted the investigation and did much of the questioning of witnesses. The hearings were held by a special investigative subcommittee of the Senate Committee on Banking and Currency. They issued their findings in a series of reports, entitled *Stock Exchange Practices*, dated 1932 and 1933.

The hearings had commenced under the prodding of Pres-

ident Herbert Hoover, who stated, at least in his *Memoirs*, that he distrusted some of the activities of Wall Street. But things picked up steam after Franklin Roosevelt was sworn in as President on March 4, 1933. On May 23, 1933, chief counsel Pecora called as his first witness J. Pierpont Morgan, Jr., or "Jack," as he was known. Jack Morgan was the son of J. Pierpont Morgan, and the head of the Morgan banking firm (although Thomas Lamont was running the firm on a day-by-day basis). Morgan's testimony gave a sense of the utter contempt in which the Morgan bankers held America, the raw power that they exercised over its institutions and political figures, and their points of control.

On Jack Morgan's first day of testimony, Pecora asked if he had paid U.S. income taxes. Morgan contemptuously answered, "I cannot remember." After repeated questioning, and consultation with his attorney, Morgan allowed as how he had not paid taxes in 1930, 1931, or 1932. It was then disclosed that the dozens of Morgan partners, each of them multi-millionaires, had collectively paid less than \$50,000 in taxes in 1930, and paid no taxes in 1931. This did not sit well with a nation in which one out of four workers was officially unemployed, and where starvation was occurring.

On May 26, Pecora revealed that he had discovered a Morgan-maintained "preferred list," after going through re-

cords that he had subpoenaed from the House of Morgan banking empire. The “preferred list” was a group of men—“good, sound, straight fellows,” as Jack Morgan called them—upon whom the House of Morgan had showered largesse, in order to have these men do their bidding. A Morgan partner explained, that the House of Morgan offered the men on the “preferred list” deals—in one case, Morgan Bank offered the stock of the Alleghany Corp., which was trading in the market at \$35-37 per share, to people on the “preferred list” at \$20 per share. One such “sound, straight” fellow, by selling his allotment of shares shortly after he got them, realized a profit of \$229,000. Of course, Morgan expected something in return.

Among those who were on the Morgan “preferred list” were:

Former U.S. President **Calvin Coolidge**;

Mega-speculator **John J. Raskob**, who had been head of the Democratic Party. Raskob told a Morgan partner that he hoped there would, in the future, be “opportunities for me to reciprocate.” Raskob was a leader of the Wall Street-steered American Liberty League, which tried to overthrow President Roosevelt between 1933 and 1937;

Owen J. Roberts, whom President Herbert Hoover appointed to the U.S. Supreme Court;

Financier **Bernard Baruch**;

Norman Davis, an Anglophile diplomat, who served in Roosevelt’s administration.

Any investigation into the speculative bubble of the 1920s, would have to look at the roles of President Calvin Coolidge and Treasury Secretary Andrew Mellon. Coolidge was President from 1923 to 1929, the years that the bubble grew to its enormous size. President Herbert Hoover, who took office in March 1929, had only been in office for six months, when the stock market crashed: It was a “gift” he inherited from Coolidge. (Other powerful forces and events outside the United States, of course, contributed to the 1929-32 financial crash and depression.) Andrew Mellon played an even more pivotal role, as a member of the powerful London-controlled Mellon banking family. He served as Treasury Secretary from 1921 to 1932, under three administrations—those of Warren Harding, Coolidge, and Hoover—and often dictated to the U.S. President what financial and economic policy would be.

Goldman Sachs investigated

The Fletcher-Pecora hearings helped lift the veil from Wall Street’s use of power to bulldoze any opposition to its looting and speculation. This included investigation of the practices of Goldman Sachs, then, as now, one of America’s “first-tier” investment banks.

Goldman Sachs exemplified two tendencies. First, it had built up an enormous Ponzi scheme, operating beyond the pale of regulation (since virtually no regulation existed at this

time). This significantly fed the financial bubble. Second, it conjoined under one roof, the operating activity of an investment bank, several commercial banks, and several insurance companies, and showed the fatal consequences therefrom.

Goldman Sachs had cultivated a reputation as following “rock-ribbed conservative” practices. This is quite humorous, given that they are the most wildly speculative of investment banks.

The key to Goldman Sachs’s performance was the fervor with which it used leverage. The multiplier effect of leverage has been likened to cracking a whip. A certain force in the snap of the wrist, can result in many multiples of that force being discharged at the whip’s end. To get this “snap,” Goldman Sachs used investment trusts. These are simply corporations that don’t do anything productive, but obtain their value by buying the stocks of other companies, and holding onto them. After World War II, these investment trusts soon merged into their very close cousins, which we know today as mutual funds.

The investment trusts worked on the principle that through leverage, they could conjure up vast amounts of fictitious value, thereby enriching themselves: that they would cause their own common stock price to increase in value at a higher rate of growth than that of the common stock of other companies that they were holding.

To see how this operated, let us create an imaginary investment trust, which will operate very much as Goldman Sachs’s investment trusts actually did. We can call this Investment Trust A. In order to operate, Investment Trust A must have some cash. To obtain cash, it sells its own paper. Let us say that Investment Trust A obtains \$150 million worth of cash, by issuing \$150 million of its own paper: \$50 million of its own bonds, \$50 million of its own preferred stock, and \$50 million of its own common stock. After the sale of its own instruments, Investment Trust A uses the \$150 million in cash to buy the common stock of other companies, such as AT&T, Ford, GM, and U.S. Steel. These stocks are now called Investment Trust A’s assets.

If one is operating during 1929, prior to the crash, one can expect the price of the common stock that one owns to go up. Assume all common stocks rise, on average, by 50% in value. Then, the assets that Investment Trust A owns, which were worth \$150 million, would now be worth \$225 million. If the value of Investment Trust A’s *assets* are worth \$225 million, then the value of the *paper* that Investment Trust A has issued—its bonds, preferred stock, and common stock—should reflect this increase, by also being worth \$225 million.

Here’s how the first level of leverage comes in. The value of the bonds and preferred stock that a company originally has issued does not change much, except if there is a change in interest rates. Investment Trust A originally issued \$50 million worth of bonds and \$50 million worth of preferred stock. They will still be worth, roughly, \$50 million apiece.

Thus, the only paper that Investment Trust A issued that could rise in value, is its common stock. Since the total value of Investment Trust A's financial paper is now worth \$225 million, then the value of common stock that Investment Trust A issued, must have risen in value from \$50 million before, to \$125 million now.

Notice what happened: The value of the assets—the common stock of other companies—that Investment Trust A owns, increased in value by 50%; but the value of Investment Trust A's own common stock increased in value by 150% (from \$50 million to \$125 million), that is, at a rate three times greater than the common stock of other companies that Investment Trust A owns. This constitutes leverage. In this example, the ratio of leverage is 3:1, between the increase in the value of common stock, and its production of a threefold increase in the value of Investment Trust A which owns these stocks. In each case, some multiple of leverage is at work.

The blindly ambitious would not stop there: Assume that one could further set up an Investment Trust B, which would buy up and hold the common stock of Investment Trust A. Investment Trust B would issue bonds, preferred stock, common stock, etc. Investment Trust B's value would increase, by a leverage-multiple, upon the increase in value of Investment Trust A, which itself increased, by a leverage-multiple, upon the increase of the common stock of other companies which it held. If the leverage of Investment Trust A to the common stocks it held was 3, and the leverage of Investment Trust B to investment Trust A was 3, then the leverage of Investment Trust B to the common stock in the portfolio of Investment Trust A was 9.

Using this principle of leverage, Goldman Sachs proceeded to establish three major investment trusts: Goldman Sachs Trading Company (starting in December 1928), Shenandoah Corp., and Blue Ridge Corp. Blue Ridge Corp. bought the common stock of other companies, such as AT&T and Ford. In turn, Shenandoah Corp. bought 86% ownership of the stock of Blue Ridge; and, Goldman Sachs Trading Company, along with an allied partner, bought up 80% ownership of the stock of Shenandoah Corp. By the time one gets up the ladder to Goldman Sachs Trading Company, one is getting leverage, upon leverage, upon leverage. Goldman Sachs investment bank owns and manages Goldman Sachs Trading Company. Thus, from this Ponzi scheme, Goldman Sachs raked in huge profits. But there is nothing real here: There is only paper based on other paper, based on other paper. This Ponzi scheme jacked up the value of each of the three Goldman Sachs-run investment trusts, which in turn underpinned the rising value of the U.S. stock market. Meanwhile, similar Ponzi schemes were being run by equally "rock-ribbed conservative" banks, such as J.P. Morgan, and the amount of leverage that was pumped into the U.S. stock market was enormous (other leverage was coming into the market through things like margin debt/borrowing).

But, having manufactured profits for itself out of the clear blue sky, Goldman Sachs could not stop there. Quickly, it developed a cash hoard in Goldman Sachs Trading Co. The goal became to pollute other parts of the economy. Goldman Sachs used the cash hoard to go on a spree, buying up *commercial banks*. Goldman Sachs bought the controlling stock in Manufacturer's Trust (the forerunner of Manufacturer's Hanover Trust), one of the most powerful banks in America. It compounded that by buying up Pacific Trust Co., Foreman State Bank of Chicago, and American Trust Co. of San Francisco. Not pausing to catch its breath, it bought up three insurance companies. It also had some of the banks that it had taken over, put in money to help take over the insurance companies. There was now an incestuous ring among investment bank Goldman Sachs, some commercial banks, and some insurance companies.

Goldman Sachs then turned to the next round of looting. It was one of the top bond trading firms in the country: it underwrote and traded bonds for industrial companies, for which it earned a fee. It instructed the commercial banks and insurance companies which it had gobbled up: "You will buy these industrial bonds." They complied, even if it was not in their own interests. In the case of the commercial banks, they were now putting their depositors' funds at risk to buy these bonds; in the case of the insurance companies, they were spending their policyholders' money to buy these bonds.

Goldman Sachs then took some of its spare cash, lent it to its captive commercial banks, charging them rates as high as 20%, so that the commercial banks would, in turn, lend it as "call money" to speculators who were playing the stock market.

The whole Ponzi scheme came tumbling down. Shenandoah Corp., which had been trading at \$36 per share in late July 1929, fell to 53¢ in July 1932. The rapid de-leveraging of the Goldman Sachs empire, helped topple the financial markets.

Others were involved, too, in producing this outcome. There was the criminal behavior of Charles E. Mitchell, the head of National City Bank (today, Citigroup/Citicorp). This was paralleled by the criminal behavior of Albert H. Wiggin, the head of Chase National Bank (today, Chase Manhattan), and so forth.

Bankers horrified over Glass-Steagall

On March 4, 1933, Franklin Roosevelt was sworn in as President. Within days, Congress was meeting in session. Some of the broad outlines of the bankers' depredations had already been discovered, and the Fletcher-Pecora hearings brought more to light. The nation was still experiencing a financial downturn, three and one-half years after the October 1929 stock market crash.

The financier oligarchs had had their day; President Roosevelt and some others decided that it was time to assert na-

tional sovereignty.

The Fletcher-Pecora hearings had revealed some of the elements of the Goldman Sachs story, and had shed light on the danger of a single financial institution mingling the activity of a commercial bank, with that of an investment bank/brokerage firm, with that of an insurance company. Prior to the 1929 crash, Goldman Sachs's power had grown to such an extent, that few could have checked it.

The Glass-Steagall Act aimed to take apart a pivotal part of the power. Its official name was the Banking Act of 1933, but it soon popularly bore the names of its two sponsors, Sen. Carter Glass (D-Va.), a senior member of the Senate Banking Committee, and Rep. Henry Steagall (D-Ala.), the chairman of the House Banking Committee.

The Act stated that no single institution or bank holding company could engage in both commercial banking and brokerage/investment banking. No commercial bank could own an investment bank, or carry out the functions of an investment bank. Sections 16 and 21 of the Act stated that no commercial bank could engage in the business of "issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stock, bonds, debentures, notes or other securities." (The exception is that commercial banks can sell and underwrite U.S. government bonds.) The sale, syndication, etc., of securities, is the domain of the investment banks. On the same grounds, no investment bank could take individual small customer deposits, which is the domain of the commercial bank. Neither commercial nor investment banks could own an insurance company.

The bankers understood that an important part of the cycle of the 1920s was being broken. W.C. Potter of the Morgan Bank-controlled Guaranty Trust characterized the proposal as "quite the most disastrous" he had "ever heard." The American Bankers Association led the fight against the bill, "to the last ditch," in its president's words.

The bill carried another useful provision. It created the Federal Deposit Insurance Corp. (FDIC), which gave Federal insurance for citizens' bank deposits up to a certain amount, for the first time in the nation's history. It announced that starting July 1, 1934, all deposits under \$10,000 would be insured 100%; deposits in the range of \$10,000 to \$50,000 would be insured 75%; and deposits of \$50,000 or larger would be insured 50% (today, all deposits up to \$100,000 are insured 100%).

To counter some of the other practices of the 1920s, the bill also forbade any bank officer from borrowing from his own institution.

In mid-June 1933, the Glass-Steagall legislation passed both the House of Representatives and the Senate by overwhelming margins, and President Roosevelt signed it on June 16.

The Act, though carrying a powerful punch, was limited in its scope to curtailing certain abuses. It became part of a package that included:

- The Truth-in-Securities Act. This required full disclosure in the issue of new securities to the public. Heavy penalties would be levied for failure to give full and accurate information about securities to the government. This became law on May 27, 1933.

- The Securities Exchange Act. This set up the Securities and Exchange Commission (SEC) to regulate and oversee the securities markets. Certain manipulative practices (such as washed sales and matched orders) were prohibited. Insider trading was eliminated. This became law on June 6, 1934.

None of these laws was comprehensive: some of them were better than others in addressing individual problems, or in addressing the larger picture; yet together, they moved in the direction of asserting national sovereignty, on behalf the general welfare, and against the oligarchy. This provoked a fight with Wall Street, but some of the other necessary initiatives never made it through Congress. At the same time, other legislation was being passed to reverse the downturn in the financial system, to build infrastructure, provide jobs, and restore the physical economy.

The oligarchy's counterattack

The oligarchy saw Glass-Steagall as hitting a vital nerve, and began a process of chipping away at it. One of the biggest moves in that direction was the passage of the Garn-St Germain "Depository Institutions Act," which passed in October 1982, and deregulated the entire U.S. banking system. The Act did not address Glass-Steagall, but it had a deleterious effect on the Glass-Steagall provisions and the principle of regulation. Garn-St Germain helped eliminate usury ceilings. Along with the high interest rates imposed by Federal Reserve Board Chairman Paul Volcker in October 1979, it pushed the savings and loan associations into the crisis that would befall them in the 1980s.

It also pushed the United States in the direction of increased emphasis on speculation, and reduced agriculture and manufacturing production, which weakened the financial system and the economy as a whole.

In 1985 and 1986, the Comptroller of the Currency engaged in a duplicitous reading of the Glass-Steagall Act, to allow national banks to purchase and sell mutual funds.

In 1987, the Comptroller of the Currency concluded that a national bank may offer to the public, through a "subsidiary," brokerage services and investment advice.

In April 1987, the Federal Reserve Board of Governors interpreted a section of Glass-Steagall to allow underwriting activities if they were conducted through a securities subsidiary "not principally engaged" in underwriting. This was interpreted to mean not earning more than 5% of revenues therefrom.

Step by step, agencies sympathetic to the banks were rolling back the legislation.

In April 1998, Citicorp (a commercial bank) and Travelers Salomon Smith Barney (Travelers is an insurance com-

pany, Salomon Smith Barney is an investment bank) merged, thumbing their noses at Glass-Steagall.

Now, as a result of speculative activity, the banking-financial system is on the verge of a breakdown, several orders of orders of magnitude larger than anything that occurred in 1929-32. The same Wall Street firms that contributed to the 1929-32 meltdown, and ensuing depression, have built a bubble bigger than that of the late 1920s. Today, they use highly leveraged derivatives: In 1999, America is burdened by \$55 trillion of derivatives outstanding, of which the financial institutions own more than 90%. In the 1920s, there weren't even \$150 million of these instruments. Today, these Wall Street forces are carrying out an incredible array of corporate mergers—in 1998, mergers took place to the tune of \$1.6 trillion; in 1929, less than \$15 billion.

Thus, this is the worst possible time to undermine Glass-Steagall and the very principle of regulation of the financial system.

The Gramm-Leach-Bliley "Financial Modernization Act" will concentrate enormous speculative power into the hands of 15 to 20 institutions; along with the Federal Reserve Board, they will have control over every facet of financial life. This will speed up the process of looting and dissolution. A nation that tolerates such a retrogressive step, has abandoned its moral fitness to survive.

Deregulation: a license to steal

by John Hoefle

The irony of a wildly, dangerously out of control group of parasites proclaiming that they are being "over-regulated," suffering from a "regulatory burden" so onerous that they cannot serve the "little people" as fully as they could were the government to get off their backs, should not be lost on anyone watching the bankers and their agents running roughshod over the very people they claim they want to serve. If it hadn't happened before one's very eyes, one might have trouble believing it.

Among the loudest whiners have been the biggest commercial and investment banks in the United States, some of whom are so "over-regulated" that the notional value of their off-balance-sheet derivatives bets is more than 30 times the assets they list on their balance sheets. Think about the implications of that for a minute, both in terms of the meaninglessness of balance sheets in such circumstances, and of the nature of a regulatory system which permits such incredible activity. In many areas of the business world, a company which reported such a tiny portion of its financial activities on its balance sheets would be indicted for fraud. But, not the big commercial and investment banks. The double standard is obvious.

In case after case, Federal banking regulators, from the Federal Reserve to Congress, have bent over backwards not only to ignore, but also to actively protect, the wild speculation which has taken over modern banking. When banks break the law, as in the clearly illegal merger of the insurance and investment banking giant Travelers Group with Citicorp, the regulators jumped through hoops to promise to change the law, a promise upon which they have now delivered with the Gramm-Leach-Bliley financial modernization act. In those rare occasions when some regulatory agency does raise questions about the derivatives frenzy, as in the cases of the Federal Accounting Standards Board and the Commodity Futures Trading Commission, the knives come out quickly.

They're not banks anymore

Over the past two decades, there has been a fundamental shift in the nature of banking in the United States, namely, that the big banks have increasingly turned from banking to speculation; more and more, they've become gamblers, not bankers.

Take the case of Chase Manhattan Corp. As of June 30, 1999, it reported \$357 billion in assets on its balance sheet,

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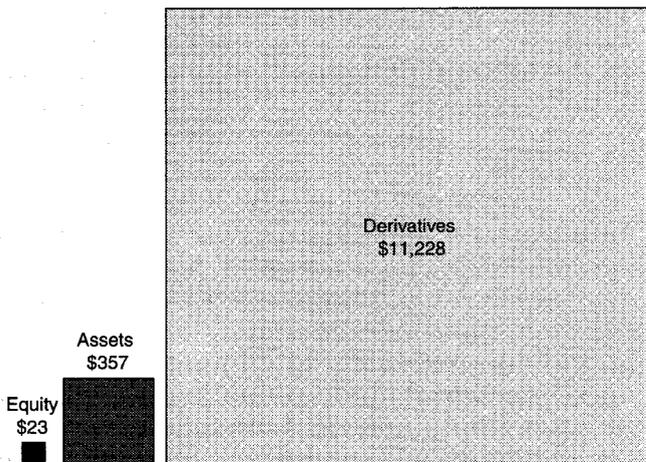
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FIGURE 1
Derivatives profile, Chase Manhattan Corp.

(billions \$)



Sources: Office of the Comptroller of the Currency; company reports.

and \$11,228 billion—\$11.2 trillion—in what the Federal Deposit Insurance Corp. (FDIC) terms “off-balance-sheet derivatives” (Figure 1). That’s \$31 in off-balance-sheet bets for every \$1 of assets. By comparison, Chase had only \$171 billion in loans, and \$23 billion in equity capital. Chase’s derivatives portfolio is so large, that a loss equivalent to just two-tenths of 1% of that portfolio would be sufficient to completely wipe out the bank’s equity. Does this sound like a bank which is over-regulated?

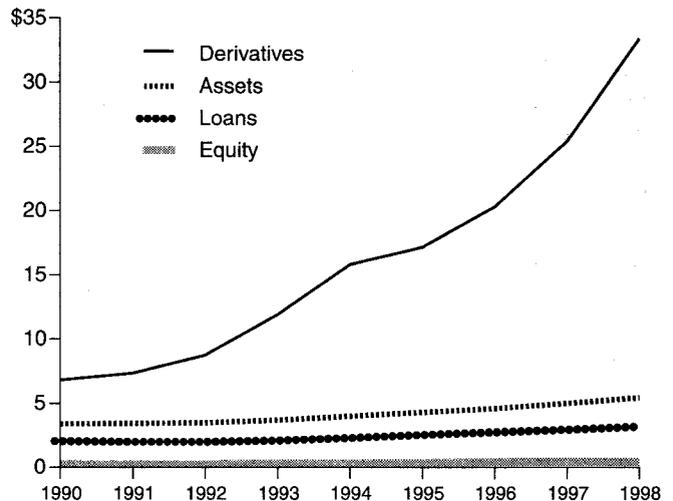
The ratios are even worse at J.P. Morgan, which had \$32 in off-balance-sheet derivatives for every \$1 of its \$269 billion in assets as of June 30, for a total derivatives portfolio of \$8.7 trillion. Morgan barely bothers to make loans any more, with just \$29 billion in loans. A loss equivalent to just 0.14% of its derivatives portfolio would wipe out Morgan’s \$12 billion in equity. Morgan is even less of a bank than Chase.

By comparison with these two high-rollers, the other big derivatives banks are paragons of virtue. BankAmerica (the new name for NationsBank) has a mere \$8 in derivatives for every \$1 of assets, and Bank One (which bought derivatives giant First Chicago NBD) has \$5 per \$1 of assets. Taunus Corp., the Deutsche Bank subsidiary formerly known as Bankers Trust Corp., had \$2.2 trillion in derivatives, or \$10 in derivatives for each of its \$209 billion in assets.

The U.S. banking system as a whole, according to the FDIC, had \$33.5 trillion in derivatives as of June 30, 1999, compared to \$5.5 trillion in assets, \$3.3 trillion in loans, and \$466 billion in equity. With off-balance-sheet bets more than six times assets and more than ten times loans, a pathological situation which is getting worse by the minute, it’s hard to call this a banking system (Figure 2). Even though nearly all

FIGURE 2
U.S. banks are addicted to derivatives

(trillions \$)



Source: Federal Deposit Insurance Corp.

of those derivatives are held by a handful of big institutions, the level of derivatives bets is so high at those institutions, as to jeopardize the entire system, including those banks which hold no derivatives at all.

It is precisely the systemic nature of the financial crisis, which is the real reason the restrictions on banking and other financial institutions are being swept away. The purpose of the flight-forward into deregulation, is to sweep away any and all obstacles to the banks’ ability to loot as much as required from the public, in order to keep their bubble going. The Glass-Steagall and related restrictions were imposed to protect the public from dishonest banks, and the major flaw in such restrictive laws, is that they did not go far enough. Even the old pirate J.P. Morgan would cast an incredulous—and jealous—double-take at today’s derivatives markets and their ability to take stealing to previously unimaginable heights.

In Bankers We Trust?

Take the case of Bankers Trust. On March 11, 1999, Bankers Trust Co., one of the world’s top derivatives banks, pleaded guilty to Federal criminal charges, arising from a scheme in which it misappropriated some \$19 million in funds belonging to its customers; the bank used those funds to create a slush fund, which it then used to overstate its earnings.

“Pursuant to its agreement with the U.S. Attorney’s Office, Bankers Trust will plead guilty to misstating entries in the bank’s books and records and will pay a \$60 million fine to Federal authorities,” the bank announced in a muted but remarkable March 12 press release. “Separately, Bankers Trust will pay a \$3.5 million fine to the State of New York.

The agreement concludes the investigation of Bankers Trust, and the firm continues to cooperate with the government's ongoing investigation of these matters."

Paying fines is nothing new for Bankers Trust, which in 1994 was fined \$10 million by the Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) for illegal activities in its derivatives trading operation. Bankers Trust's actions were so blatant that one of its derivatives victims, Procter & Gamble, accused the bank in a Federal lawsuit of violations of the civil section of the Federal Racketeer Influenced and Corrupt Organizations (RICO) Act, a law passed, at least nominally, to help law enforcement agencies battle the mob and the drug cartels.

The irony of Bankers Trust's latest fine, is an issue of an immorality "in the small" being punished, while a much more dangerous immorality—the international derivatives market—is not only allowed to continue in operation, but is protected. It was the equivalent of citing a murderer for jaywalking upon leaving the scene of the crime.

The timing of the action against Bankers Trust also shows the fine hand of Federal banking regulators in managing the banking crisis. In the wake of its 1994 escapade, the bank lost a number of customers; only by running off the existing management and bringing in former Deputy Treasury Secretary Frank Newman and former Federal Reserve Chairman Paul Volcker, were regulators able to stop the hemorrhaging. But even then, despite all its problems, the bank avoided admitting to felony crimes. The felony conviction would put the bank's viability into question—many of the bank's customers are prohibited from engaging in financial dealings with convicted felons—were it not for the fact that Bankers Trust is being taken over by Germany's Deutsche Bank.

'Lure 'em in and f— 'em'

The culture at Bankers Trust was eloquently expressed by an employee who stated: "Funny business, you know? Lure people into that calm and then just totally f— 'em." That comment, recorded on the bank's internal taping system, was just one of several which showed the predatory view the bank had toward its customers, and the world at large. Thanks to the lawsuits brought against Bankers Trust, and the subsequent SEC-CFTC investigation, many of Bankers Trust's dealings have entered the public record, including a highly embarrassing Form 8K filed with the SEC in December 1994, which includes details about the bank's derivatives dealings and some of the traders' comments. But Bankers Trust was hardly alone in its predatory view of the world. During the same period that Bankers Trust was running wild, so was Morgan Stanley, according to former Morgan Stanley derivatives salesman Frank Partnoy, whose 1997 book, *F.I.A.S.C.O.*, is required reading for anyone attempting to understand the nature of today's financial markets.

In April 1994, when widespread derivatives losses began to surface, Partnoy said that John Mack, the boss at Morgan Stanley, told the firm's derivatives traders: "There's blood in

the water. Let's go kill someone."

Partnoy describes his former associates as "feral multi-millionaires: half geek, half wolf. When they weren't performing complex computer calculations, they were screaming about how they were going to 'rip someone's face off' or 'blow someone up.' . . . We were prepared to kill someone, and we did. The battlefields of the derivatives world are littered with our victims. . . . Wall Street has made, and continues to make, huge amounts of money on derivatives by trickery and deceit."

"Like most derivatives traders," Partnoy wrote, "I was an avid gambler. . . . Salesmen and traders are wild, cunning, aboriginal creatures who advise money managers about deceiving their bosses and finding new strip bars; their favorite phrase is 'f— you.' "

Partnoy's book makes a fine companion piece to the 1989 classic *Liar's Poker*, by Michael Lewis, which chronicles the bond- and derivatives-trading activities of Salomon Brothers. Lewis's book describes a world where "blowing up" customers and "ripping their faces off" was business as usual. At Salomon, Lewis wrote, "the most revered of species" was "a Big Swinging Dick. . . . Nothing in the jungle got in the way of a Big Swinging Dick. This was the prize we coveted." To become a Big Swinging Dick, a trader or salesman had to make millions of dollars in profits for the company—and for himself, in bonuses.

Salomon eventually blew itself up, with the Treasury trading scandal of 1991, in which it was caught attempting to corner the market on Treasury bonds, in order to drive prices higher and increase its trading profits. Today, Salomon no longer exists as a separate company, but is part of the Salomon Smith Barney unit of Citigroup, the giant bank formed by the merger of Travelers and Citicorp. However, several of the Salomon alumni, including the "King of Liar's Poker" players, John Meriwether, went on to form Long Term Capital Management, the hedge fund which blew up in September 1998.

A more subdued expression of the same philosophy was provided in 1993 by Chase Manhattan's Michael G.J. Davis, who told the *New York Times* that "the bank's biggest fear would be a long period of calm and stability in the markets, which would lull companies and investors into slowing their trading activities. . . . The worst thing for us is a marketplace where nothing happens." At the time, Davis was the deputy head of risk management for Chase. To Chase, the risk was not that chaos and volatility would hit the markets, but that the markets would be calm and stable, an environment where customers were less susceptible to having their faces ripped off by the Big Swinging Dicks of Wall Street.

Taken together, the statements show the true nature of Wall Street and the *casino mondiale* known as the global financial system. The world of Wall Street is a predatory jungle where the strong eat the weak, and if you're not a predator, you're lunch. Does this sound like a system suffering from over-regulation?

The Gramm-Leach-Bliley Act

- Repeals the barrier between commercial banking and securities dealing, allowing bank holding companies to acquire or be acquired by non-bank financial firms such as investment banks, securities dealers, and insurance companies.

- Greatly expands the list of activities in which bank holding companies are permitted to engage, including what the American Bankers Association calls "a long laundry list of financial activities." The act also permits activities not on the list, that the Fed and the Treasury consider "financial in nature or incidental to financial activities"; and any activity the Fed determines is complementary to financial activity.

- National banks will be permitted to sell any financial product without geographic limitation, and underwrite any financial product other than insurance underwriting and real estate development.

- Ends the ability for commercial (that is, non-financial) companies to charter unitary thrifts, and prohibits the future sale of unitary thrifts to commercial companies.

- Reduces the ability of states to restrict the sales of insurance by commercial banks.

- Eliminates the requirement that banks must have at least 10% of their assets in housing loans to join the Federal Home Loan Bank System, and reduces the restrictions on what types of collateral are required for banks to borrow from the FHLB System.

Protection racket

Rather than move to clean up this dishonest market, Federal regulators have consistently defended the derivatives market, and attacked anyone who dared to suggest that regulation was needed.

Former House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) successfully raised the issue of the danger of derivatives in 1993, holding hearings on the financial services aspects of the North American Free Trade Agreement (at which this author testified) and on derivatives, and introduced *EIR* material into the *Congressional Record*. Gonzalez's bravery forced the Office of the Comptroller of the Currency and the FDIC to begin reporting the level of derivatives held by commercial banks. The FDIC's Quarterly Banking Profile for the third quarter of 1993 contained a new entry on the banking system's balance sheet, \$12 trillion in "off-balance-sheet derivatives," more than three times the \$3.6 trillion in assets of the banking system as a whole. As it turns out, the FDIC had been tracking the level of derivatives since

1990, but keeping it a secret. Gonzalez publicly credited *EIR* with bringing the issue to public attention.

While Gonzalez's efforts forced the regulators to publicly report the level of derivatives at commercial banks, opposition by Wall Street, other regulators, and most of Congress prevented him from taking further action. When the Republicans took over Congress and Jim Leach (R-Iowa) took over the chairmanship of the House Banking Committee, the Gonzalez rebellion was over.

The Financial Accounting Standards Board (FASB), which sets accounting standards for U.S. companies, has also been fighting a losing battle to impose reality on the banks' balance sheets. In 1989, the FASB proposed that all companies, including banks, be required to disclose in their financial statements, the fair market value of all financial instruments held by them. The response was swift, with Treasury Secretary Nicholas Brady warning that "this proposal could have serious, unintended effects on the availability of credit as well as on the stability of the financial system."

"I strongly urge the FASB not to adopt it at this time," Brady wrote to the FASB board.

In late 1994, with derivatives losses rocking the financial system, FASB finally issued a watered-down rule.

"While the alarm bells are sounding, it appears that the financial regulators are content to let the speculative controls burn out of control while they keep the fire trucks parked at the station," Gonzalez warned, accurately characterizing the derivatives market as "rampant speculation and gambling."

FASB continued its efforts to force some honesty into derivatives reporting, announcing in August 1997, that it would implement new standards for derivatives, effective for fiscal years beginning in 1998. Again, the response was quick. Citicorp warned that the move "is not what the marketplace wants or needs," and "Contract on America" kook Sen. Phil Gramm (R-Tex.) told the FASB that it "would be making a mistake with serious consequences for the financial markets." Federal Reserve Board Chairman Alan Greenspan wrote three letters to FASB Chairman Edmund Jenkins, demanding that the disclosure rules be scuttled.

Why the objection? "They don't want the derivatives showing up on their books. They don't want people knowing how it is affecting the company," a FASB spokesman told *EIR* at the time.

Thus far, the derivatives dealers are winning. While the FASB has not abandoned its plans for disclosure, it has postponed them until next year, allegedly so as not to conflict with possible Y2K issues.

Bashing the CFTC

Perhaps the most egregious example of pressure by bankers and their regulators, is the assault on the Commodity Futures Trading Commission in 1998, when the CFTC issued a "concept release" suggesting that it might establish some regulation over the over-the-counter (OTC) derivatives.

In early 1993, under then-chairman Dr. Wendy Gramm, the CFTC exempted much of the derivatives market from regulation, on the dubious theory that market professionals could be trusted and needed little oversight. Gramm's move helped pave the way for the surge in OTC derivatives, the same bubble her husband, Sen. Phil Gramm, has defended so heartily in the Senate. Today, Wendy Gramm sits on the board of Sir George Bush's Enron, while her husband chairs the Senate Banking Committee. They have, with their deregulation fetish, been among the more destructive couples in modern American economic history.

Gramm's replacement at the CFTC, Mary Schapiro, took office in October 1994, and promised tougher policing of the derivatives market, noting that the rash of losses by municipalities across the nation showed the need for greater regulation.

"I'm clearly more of a regulator than Wendy Gramm was," Schapiro stated.

The CFTC got even bolder under Chairman Brooksley Born, who took office in August 1996. During her nomination hearings, Born raised the issue of further regulation of the derivatives markets, noting that some derivatives contracts appeared to be illegal.

In Congressional hearings in April 1997, Born warned that the "professional markets exemption" issued by Dr. Gramm "could lead to widespread deregulation," which "would greatly restrict Federal power to protect against manipulation, fraud, financial instability, and other dangers." This, she added, would "pose grave dangers to the public interest."

"It is the large institutions which have the greatest power to hurt us all by their attempts at manipulation," Born warned.

The fact that certain derivatives were illegal was all but admitted by others who testified, including Mark Haedicke of Enron, representing the International Swaps and Derivatives Association. Haedicke complained that "legal uncertainties continue to exist" in the OTC derivatives market, because the Commodities Exchange Act "flatly prohibits off-exchange futures contracts."

"If certain swaps transactions were ever classified as 'futures contracts,'" Haedicke continued, "they would be illegal and unenforceable as a matter of law." That, Haedicke arrogantly asserted, "is obviously unacceptable in the global marketplace."

In July 1997, Chase Manhattan managing director Dennis Oakley explained the question of legality as follows: "The Commodity Exchange Act requires that all commodity futures contracts be traded on a board of trade, and that since 1974, financial products have been considered commodity futures, unless they fall within the exception of the Treasury Amendment. If a product is deemed to be a future, and is not traded on a board of trade, it is null and void."

The problem, Oakley said, "is that some of our fastest-growing products, such as equity and credit derivatives, are not covered by the exemption."

"We have no way to manage this new legal risk," he continued, adding that unless the CFTC were stopped, "Chase will be forced to move this business to another location, probably London."

The issue of legality was also addressed by a Group of 30 study released in 1993, which admitted that in many countries, derivatives could be considered gambling, and as such not enforceable by law. The G-30 also demanded changes to the law, to force the derivatives suckers to pay up.

The issue came to a head in May 1998, when the CFTC issued a "concept release" announcing that it was "reexamining its approach to the OTC derivatives market." It was, given the derivatives mania which pervades Wall Street and its pets in Washington, a declaration of war.

The response, again, was immediate and forceful. On May 7, the day the CFTC issued the release, Fed Chairman Greenspan, Treasury Secretary Robert Rubin, and SEC Chairman Arthur Levitt issued a joint statement denouncing the CFTC's action.

"We have grave concerns about this action and its possible consequences," the statement said. "The OTC derivatives market is a large and important global market. We seriously question the scope of the CFTC's jurisdiction in this area, and we are very concerned about reports that the CFTC's actions may increase the legal uncertainty concerning certain types of OTC derivatives."

On June 5, Greenspan, Rubin, and Levitt sent a joint letter to House and Senate leaders, demanding legislation to prohibit the CFTC from reexamining the OTC derivatives market; attached to the letter was a legislative proposal which, they said, "seeks to protect this market from unnecessary, and potentially damaging, legal uncertainty."

The letter said that the President's Working Group on Financial Markets, created after the 1987 stock market crash, would conduct a year-long study of the OTC market, to see if any changes were needed. That study, released in November 1999, not surprisingly concluded that the CFTC should keep its hands off the OTC derivatives markets, and urged Congress to "clarify" the OTC's lack of authority in the area.

Faced with such opposition, and the threat that the CFTC would be forcibly neutered through revisions to the Commodity Exchange Act, the CFTC decided to wield the knife itself. Brooksley Born was forced to resign, replaced by former Kidder Peabody banker and money manager William Rainer. (Kidder Peabody was driven bankrupt by derivatives losses in 1994.)

In a speech to a Chicago commodities conference on Oct. 28, 1999, Rainer signalled to all that the CFTC had been brought to heel. "The CFTC must embark on a process that may result in a major deregulation of financial futures markets," he said, promising to shift the agency "from being a front-line regulator to an oversight regulator. While the financial futures markets are most in need of regulatory reform, all of our contract markets would benefit from a lighter regulatory hand."

Brits go for raw materials grab before the bubble pops

by Jeffrey Steinberg

On Dec. 8-9, the Center for Strategic and International Studies (CSIS) and the London *Financial Times* energy division co-sponsored a conference in Washington on "The Geopolitics of Energy into the Twenty-First Century." While the event took place in the capital city of the United States, and featured U.S. Energy Secretary Bill Richardson as the wrap-up speaker, the policies put forward to the audience at the conference, and which dominated the two-year study group that culminated with the Washington event, were 100% warmed-over British raw materials geopolitics, borrowed from Britain's nineteenth-century "Great Game" and from Cecil Rhodes's schemes for the looting of the African continent.

Notable Trilateral Commission lackeys, such as former Carter administration National Security Adviser Zbigniew Brzezinski and former Secretary of Energy and Director of Central Intelligence James Rodney Schlesinger, who were featured at the conference, may not know what the driving forces behind their policy outline are. The doctrine of "geopolitics" has always been a hoax, ever since geography student Halford Mackinder invented that fairy-tale. Perhaps silly Brzezinski actually believes it. However, to understand what he and his crony Schlesinger lack the intelligence to comprehend about this matter, see Lyndon LaRouche's "Storm Over Asia" video report on the historical roots of current U.S. strategic interests, and his article which follows. What the CSIS-*Financial Times* conference offers as the oligarchy's motive for war-mongering, is chiefly a fiction designed for the credulity of the self-deluded; but, the war-mongering is real.

The fact that the energy policy group of the *Financial Times* co-hosted the conference should make this point clear. And, the fact that British agent Brzezinski, a "strategic" consultant to Amoco at the time of its 1998 merger with British Petroleum, delivered the keynote on the opening day of the event, adds the relevant scandalous element to the picture.

The purpose of the CSIS-*Financial Times* saber-rattling was never stated during the two-day proceedings. Nor was it even touched upon in the voluminous scenario studies and forecasts produced by CSIS's Strategic Energy Initiative, which have been reviewed by *EIR* staff.

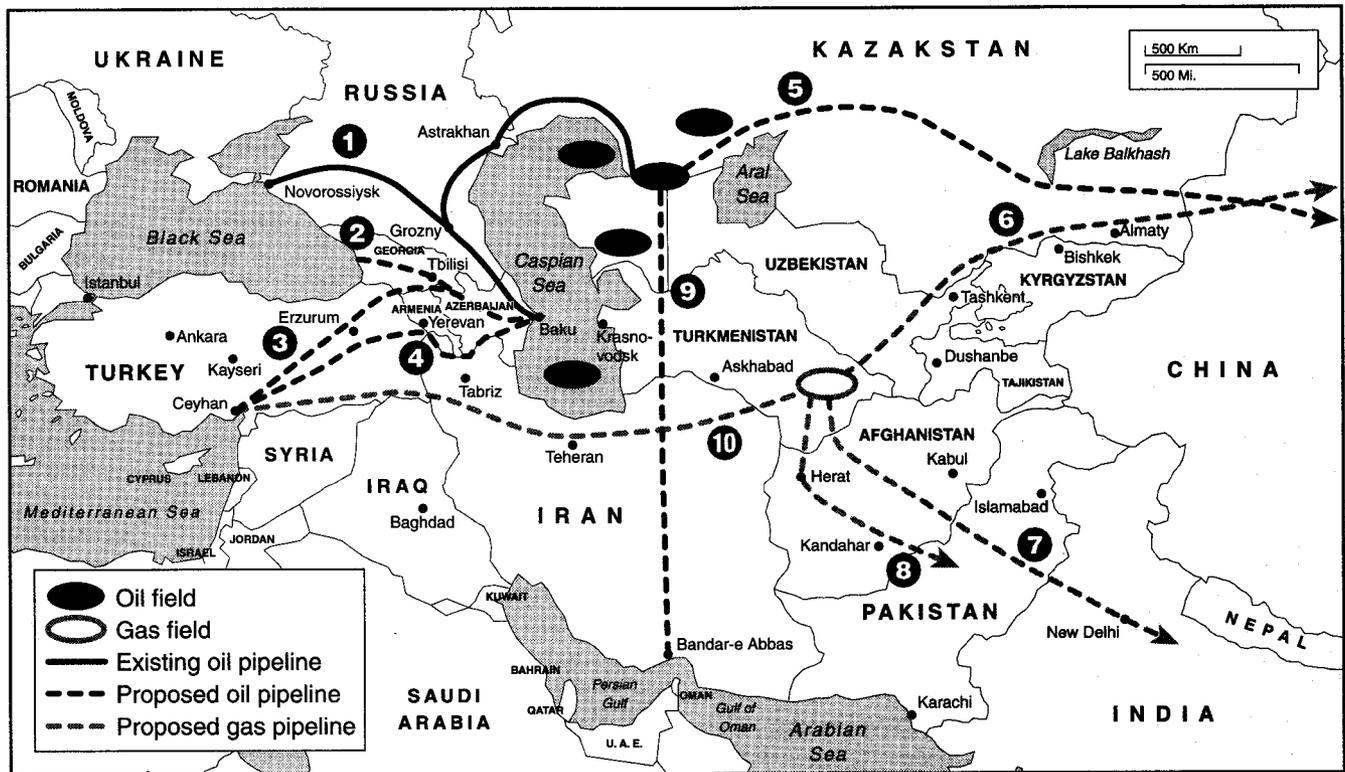
What is the reality beneath the layers of geopolitical babble? Start from the top. The fact is, the City of London-centered financial oligarchy is well aware that the entire international monetary and financial system is on its last legs, and could disintegrate at any moment. Indeed, in recent days, there has been a sudden proliferation of articles in the London financial press and elsewhere, noting that the skyrocketing of stock prices in the so-called computer technology sector is a classic financial bubble. And, like past centuries' Tulip Bubble, the South Sea Bubble, and all similar phenomenon of modern history, this current bubble is sure to pop. (See pp. 5-6.)

Given that reality, the objective of the British-centered financial oligarchy is to grab up as much of the strategic raw material wealth of the planet *now*, before the bubble explodes. They are preparing—now—for the *post-crash* reality, and they are taking steps now to control income streams in the post-crash world. Their immediate operations involve grabbing up juridical control over the vast oil, natural gas, and strategic mineral resources of the Caspian Sea, the Caucasus, and Central Asia, as well as Africa and Ibero-America.

The Baku to Ceyhan pipeline

A review of the recently signed oil and natural gas pipeline deals for routes from Baku to Ceyhan demonstrates the point. The agreement was signed in November in Istanbul, Turkey, during the meeting of the Organization for Security and Cooperation in Europe (OSCE). It provided for a consortium of Western oil companies, led by British Petroleum, to build a pipeline from the Baku, Georgia oil fields and the Caspian

Oil and gas pipelines in the Caucasus and Central Asia



Sea to the Turkish Mediterranean port of Ceyhan. A parallel agreement-in-principle would build a natural gas pipeline from Turkmenistan, under the Caspian Sea, to another Turkish port city. Both of these pipelines are vastly inefficient and extraordinarily expensive, and, in all likelihood, will never be constructed. Yet, the hoopla that surrounded the signing of the deal, which was attended by President Clinton and Energy Secretary Richardson, indicates that something big is afoot. And that afoot is a contractual grab, giving British Petroleum et al. juridical claims over the oil and gas exploration rights—to be called in after the financial crash.

Never mind that these maneuvers have already unleashed a conflict that will, unless reversed, lead to a world war in the near future. The British oligarchy is once again pursuing a course of action that will provoke global calamities, unless they are stopped. To date, the most coherent discussion of this crisis has been provided by Lyndon LaRouche, in “Storm Over Asia.”

No reality here

The reality of the looming financial crash never came up at the conference. Instead, a gang of raving geopoliticians, led by the clinically insane Brzezinski, presented one scenario after another, proclaiming that Russia, Belarus, Ukraine, and Central Asia will remain economically weak and vulnerable, i.e., ripe for looting, for the next decade. Never mind that the

post-Bretton Woods financial bubble is about to end. Never mind that the economic and financial crisis is *global*—not something localized to Russia and its neighbors.

Nevertheless, the conference did present an opportunity for some of the fault lines among the Beltway strategists, the Clinton administration, and others, to emerge. So, *EIR* has decided, as part of our expanded coverage of the policy debates now ongoing in the leading capitals of the world, to provide this background report on the event and its leading participants. We also provide background on the Clinton administration’s seriously flawed global energy policy—which differs in many important ways from the lunatic rantings of Brzezinski, his CSIS cronies, and the British-dominated oil cartels. We also provide a short report on Sen. Sam Brownback (R-Kan.), who typifies those among the Republicans in Congress who serve as tools of the British oligarchy, whether witting or not. Brownback was the architect of a bogus “New Silk Road” amendment, recently passed as part of the fiscal year 2000 budget, that aimed to give a “Made in the U.S.A.” label to the British provocations in the Caucasus-Central Asian region.

Consider this a psychological study, supplementing “Storm Over Asia,” aimed at providing you with the tools to see through the fog of think-tank jargon and media babble, so that you are able to comprehend the factors leading this planet, once again, toward world war.

The myth of geopolitics

by Lyndon H. LaRouche, Jr.

Geopolitics, as popularized by the geography freak Halford Mackinder, he of Britain's war-mongering King Edward VII, was always a fairy-tale intended for the ears and eyes of credulous fools in and out of military uniforms. Like all such fairy-tales, the myth of "geopolitics" was created to hide the British monarchy's actual motives for creating an alliance of Britain, France, Russia, Italy, and the U.S.A. of Wall Street's Presidents Theodore Roosevelt and Ku Klux Klan sponsor Woodrow Wilson, for a war intended to destroy both Russia and Germany, and to take over control of the U.S.A. itself from within. Since the real motives for what became World War I, were not suitable for official publication, a fairy-tale explanation of the motive for war, "geopolitics," was concocted, instead.

The real objective of the British monarchy, since 1776, has been either to destroy, or reassimilate the United States of America. Until 1863, the commitment of the British Foreign Office of Jeremy Bentham and his clone Lord Palmerston, was to destroy the U.S.A. The use of treasonous U.S. Presidents Polk, Pierce, and Buchanan, in preparing the way for the launching of the Confederacy, was the last effort to break up the United States during that century. The decision at Gettysburg prompted the British monarchy to rely upon Wall Street's subversion to corrupt and take control of the U.S. from within, rather than new military conspiracies such as that built up under Wall Street-controlled anglophile Presidents such as Polk, Pierce, and Buchanan.

The 1861-1876 crash program of economic development, conducted by such followers and allies of Henry C. Carey as President Abraham Lincoln, established the U.S. economy as the world's leading agro-industrial nation, with the world's most advanced technology in practice. Admiration of this U.S.A. economic success of 1861-1876, brought Bismarck's Germany and Russia's Alexander II, together with Meiji Restoration Japan, into a grand global partnership with the United States, against the British imperial monarchy. The launching of trans-Eurasia continental railway systems, modelled upon the proposals of the German-American Friedrich List and the U.S. transcontinental system, thus constituted a U.S. economic partnership which threatened to destroy the dominant role of the British Empire. This was the reality of the so-called "geopolitical threat" which the U.S.A., Germany, Russia, and Japan, represented for the British imperial monarchy, specifically the monarchy run by Palmerston-trained Prince of Wales and later King Edward VII.

The importance of covering over the British monarchy's true war-making motive with the fairy-tale of geopolitics, is

best understood from close examination of the internal struggle by and against Britain's Wall Street bankers and lawyers, especially over the course of 1873-1917.

Wall Street and the Southern states' slave-owning class have represented, to the present day, a continuous bastion of the British monarchy's agents inside the U.S.A. This role of Wall Street was established with the founding of the Bank of Manhattan by Aaron Burr, a Burr who was an agent of the head of the British Foreign Office, Jeremy Bentham, at that time. Under Bentham later, and more famously, Lord Palmerston, the hard core of the New York, New England, and Southern states' British agents was assembled under the title of "Young America," the U.S. branch of Palmerston agent Giuseppe Mazzini's "Young Europe" network. Under the rubric of the cult of "shareholder value," we see again today the unity of Wall Street bankers and lawyers with the Confederacy's populist legacy.

However, contrary to the "geopolitical" fairy-tale, then or now, the issue was never conflicts among geographically national self-interests as defined in terms of territory or "natural resources." The real issue was always the same issue which divided American patriots from American-Tory traitors, back during the 1776-1863 period, and still today. With the collapse of the sordid relics of feudal-aristocratic "conservatism," the conflict between so-called British liberal democracy, and U.S. republicanism, became the only issue which defined the essential global conflict within our planet as a whole. British liberalism represented the triumph of Roman-style financier oligarchy, as based in a parliamentary system of "bread and circuses," by means of which the Bank of England's financier constituency ruled over a British population stupefied by the "bread and circuses" dispensed in the name of a pompous monarchy.

The issue was, and is, whether the authority and responsibility of government shall be defined by service to the interest of a ruling financier-oligarchical class (e.g., "shareholder value"), or as the U.S. Declaration of Independence and Preamble of our Constitution define the fundamental law of our republic: the obligation and authority of government as resting exclusively upon the government's indispensable power to promote the general welfare, that for all the living and their posterity.

The real issue, on whose behalf the Anglo-American financier oligarchy deploys lackeys such as Brzezinski and Schlesinger, is between those two forces today. The issue is, shall we respond to the inevitable disintegration of the present world financial system, with the forces of war, chaos, and genocidal population policies, or shall we bring a powerful group of nations, including the U.S.A. and some leading nations of Eurasia, together, to establish a new global monetary system, one echoing the pre-1958 Bretton Woods agreements, but more equitable than that of the pre-1958 period? That is what Brzezinski, Schlesinger, et al. were really babbling about.

Conference at CSIS: the geopolitics of energy

by Scott Thompson

On Dec. 8-9, the Center for Strategic and International Studies (CSIS), based at Washington, D.C.'s Georgetown University, co-hosted with the *Financial Times* energy division a conference on "The Geopolitics of Energy into the 21st Century." While Clinton administration officials such as Energy Secretary Bill Richardson, whose speech concluded the conference, differed significantly with the neo-colonial policies presented by the CSIS gang of geopolitical mafiosi, the overall theme of the conference was to plot a Cecil Rhodes-style grab of raw materials, particularly oil and gas, worldwide.

The co-director of CSIS's Middle East program, Tony Cordesman, wrote a background paper for the event, entitled "Are Energy Wars Still Possible?" His conclusion was a definite, "Yes." Cordesman calls for a resurrection of the "Great Game," which historically pitted the British, French, Russian, and Ottoman empires against one another in Transcaucasia, Central Asia, and the Middle East. CSIS counsellor Zbigniew Brzezinski, who gave the keynote address on "The New Global Geopolitical Framework," called for "ostracizing Russia"—through means that carry the potential for World War III—to grab the oil and natural gas reserves of the Transcaucasus, the Caspian Sea basin, and Central Asia, while Russia is going through a "time of troubles" and therefore unable to stop this process. Brzezinski, who had been the founding executive director of the Trilateral Commission from (1972-75) before becoming President Jimmy Carter's National Security Adviser, presented what informed sources in Europe call "the New Carter Doctrine" (see accompanying article).

Some of the highlights of the conference, which was intended to project sources of potential Western energy needs 10 to 15 years into the future, include:

- There were brief introductory remarks from former Sen. Sam Nunn (D-Ga.), the new chairman of CSIS, and from Carter administration Secretary of Energy and former Director of Central Intelligence James Rodney Schlesinger, a senior associate at CSIS. These two were co-chairs of the CSIS two-year-long Strategic Energy Initiative, which has generated numerous background briefs and mini-conferences.

- Brzezinski's keynote speech, according to the U.S. Information Agency (USIA), laid out a kind of domino theory, that if the Russian offensive in Chechnya succeeds, then "the neo-colonial thinkers in Moscow" would be encouraged to

destabilize Georgia, which is the "central link" for two proposed pipelines to carry oil and natural gas from the Caspian Sea to Turkey and ports in western Europe, thereby bypassing Russia. Brzezinski argued that "if Georgia falls under the influence of Russia, the pipelines, and by extension, the economic and political pluralism of Central Asia, would be at stake." He also said that Russia considers the "competition for Central Asian energy resources as a 'zero sum game.'" Brzezinski wants the United States to "soften" its policy toward Iran, too, in order to use pipelines from the Caspian Sea basin, Transcaucasia, and Central Asia through Iran against Russia. Brzezinski concluded by calling for pressure to be put on Russia by "setting aside the questions of sovereignty" in Chechnya, and having a U.S./European Union economic development project for the region.

- Robert Priddle, the British executive director of the International Energy Agency (IEA), was among those speaking on "Energy in the New Millennium: Does Change Overwhelm Continuity?" Priddle had been Deputy Secretary of the U.K. Department of Energy and Director General of Energy Resources from 1989-92, through which posts he had management responsibility for the U.K. energy sector.

- Sen. Joseph Lieberman (D-Conn.) and Jessica Matthews, president of the Carnegie Endowment for International Peace, were among those speaking on "Energy and the Environment: A Dialogue." Lieberman is one of the leading environmentalists in Congress, and has been chairman of the Democratic Leadership Council (DLC), one of the leading institutions promoting the "Third Way" policies of "triangulation" of Vice President Al Gore, Jr. and British Prime Minister Tony Blair.

- The luncheon speaker on Dec. 8 was Undersecretary for Economic, Business, and Agricultural Affairs at the U.S. State Department, Alan Larson.

- The central panel, chaired by Schlesinger, was on "Geopolitics and the World Energy Market." Speakers included: Tony Cordesman (on "The Middle East: The Key to Global Supply"), a former member of the staff of Sen. John McCain (R-Ariz.), who is now close to McCain's bid for the GOP Presidential nomination; the CSIS director of the Energy and National Security Program, Robert Ebel, who spoke on "Russia: Breakthrough or Breakdown?"; and, the Iranian-born Fereidun Fesharaki, senior fellow at the East-West Center and former energy adviser to the Prime Minister of Iran in the 1970s, who spoke on "Asia: The Key to Global Demand."

- Peter I. Bijur, chairman and CEO of Texaco, Inc., spoke next on "A New Era for Energy Suppliers."

- The dinner speaker on Dec. 8 was Ali Al-Naimi, Minister, Petroleum and Mineral Resources, Saudi Arabia.

- On Dec. 9, the panel was on "Geopolitical Risks in the World Energy Market," and was addressed by Daniel Yergin, chairman of the Cambridge Energy and Research Associates, an international consulting firm. Yergin won the Pulitzer

Prize for general nonfiction, for *The Prize: The Epic Quest for Oil, Money and Power*, which became a number-one best-seller and was made into an eight-hour PBS/BBC television series. He is a member of both the New York Council on Foreign Relations and the Royal Institute for International Affairs (Chatham House).

- U.S. Secretary of Energy Bill Richardson gave the concluding speech.

CSIS Energy and National Security Program

The conference was the culmination (except for a book that is to follow) of CSIS's Strategic Energy Initiative. This initiative is one of four programs that have been run at CSIS under the umbrella of the Energy and National Security Program (ENSP).

ENSP Director Robert Ebel has held positions in the CIA, the Department of the Interior, and the Federal Energy Agency. He was a member of the first U.S. government oil delegation to the Soviet Union in 1960, and in 1970 he returned to Russia to inspect the new oil fields in western Siberia. In 1994, he was named by the International Energy Agency to a team of experts examining Russia's long-term energy strategy, and in November 1997, he led a team to examine the oil and gas sectors of Turkmenistan and Uzbekistan. He is the author of numerous books on Russian, Transcaucasian, Caspian Sea basin, and Central Asian oil and natural gas.

The programs for which he provides overall coordination, apart from the Strategic Energy Initiative, include:

1. "Global Nuclear Materials Management." This initiative was to study a post-Cold War strategy for secure nuclear energy operations in the next century. On Dec. 4, 1998, CSIS's Sam Nunn hosted a conference to discuss nuclear policy and its future.

2. "Nuclear Regulatory Process Review." This initiative was focussed on a review of the U.S. Nuclear Regulatory Commission's (NRC) regulatory process for commercial nuclear reactors and its internal efforts to improve this process. It produced a final report under CSIS auspices, *Regulatory Process for Nuclear Power Reactors: A Review*.

3. "Caspian Sea Oil Study Group." The ENSP report on this study group states: "After the collapse of the Soviet Union, the Caspian Sea basin held great promise to foreign investors for its potential oil and natural gas reserves. Since then, deals have been struck, millions of dollars invested, but very little oil has been exported. This ongoing group focuses on foreign investor developments in oil production and export in the Caspian Sea states, taking into consideration current political and economic climates. Since the beginning in April 1994, the group has hosted the Prime Minister of Armenia, the Foreign Minister of Turkmenistan, and the President and Vice-President for Exports of the Azerbaijan International Operating Company (AIOC)."

Lunatic Brzezinski's 'New Carter Doctrine'

by Scott Thompson

The Center for Strategic and International Studies (CSIS), especially through its counsellor, Carter National Security Adviser Zbigniew Brzezinski, has been one of the key centers advocating what high-level European sources have called a "New Carter Doctrine," and with it the threat of an escalation of regional crises toward World War III.

According to this "doctrine," the Caucasus-Central Asia region is defined, in effect, as the Persian Gulf of the twenty-first century, whose raw materials deposits are of vital importance for the West. While Russia is in what the CSIS calls a "meltdown," Brzezinski describes Transcaucasia, Central Asia, and the Caspian Sea basin as part of a "Zone of Instability" which includes the infamous "Arc of Crisis," of which he spoke before and during the time he infested the Carter administration.

At least since the 1997 publication of his book *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives* (Basic Books), Brzezinski has advocated a new version of the historic "Great Game," by which Britain, France, and the failing Ottoman Empire sought to wrest Transcaucasia, Central Asia, and the Caspian basin, with its significant raw materials, away from any re-assertion of Russian dominance.¹ Brzezinski's colleagues at CSIS, through its Strategic Energy Initiative, argue that such moves today ought not cause a Russian backlash, because Russia receives most of its oil and natural gas from the Urals-Volga region and Siberia. Thus, a plot has been hatched by British asset Brzezinski and his Anglo-American oligarchical faction, to grab this region, while Russia remains enmired in a "time of troubles."

Brzezinski on U.S. supremacy

In *The Grand Chessboard*, Brzezinski asserts that the United States is today the supreme superpower, on a scale

1. For more on Brzezinski's geopolitical lunacy see Lyndon H. LaRouche, Jr., "Mad Brzezinski's Chessboard," *EIR*, April 2, 1999; Scott Thompson, "A Lexicon of 'Brzezinskisms': Brzezinski Testifies Against Himself," *EIR*, April 9, 1999; Lyndon H. LaRouche, Jr., "Brzezinski's Role in the Nuclear-War Potential," *EIR*, Sept. 10, 1999; and, Scott Thompson, "An Oily Family: The Brzezinskis and the 'Great Game' in Transcaucasia," *EIR*, Sept. 10, 1999.

unmatched by even the Roman and British empires.

"Hegemony is as old as mankind," he writes. "But America's current global supremacy is distinctive in the rapidity of its emergence, in its global scope, and in the manner of its exercise. In the course of a single century, America has transformed itself—and has also been transformed by international dynamics—from a country relatively isolated in the Western Hemisphere into a power of unprecedented worldwide reach and grasp. . . .

"In brief, *America stands supreme in the four decisive domains of global power*: militarily, it has an unmatched global reach; economically, it remains the main locomotive of global growth . . . ; technologically, it retains the over-all cutting edge areas of innovation; and culturally . . . it enjoys an appeal that is unrivalled . . . all of which gives the United States a political clout that no other state comes close to matching. *It is the combination of all four that makes America the only comprehensive global superpower.* . . .

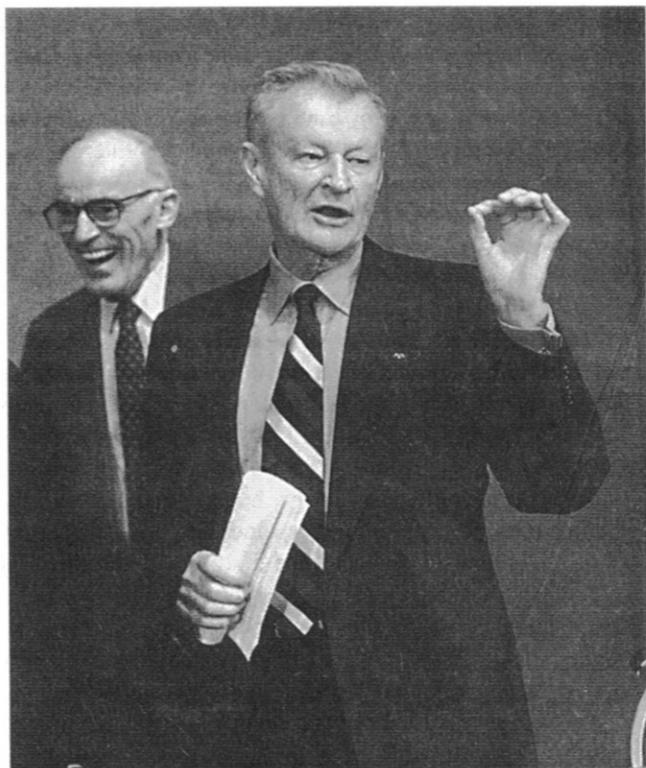
"For America, the chief geopolitical prize is Eurasia. For half a millennium, world affairs were dominated by Eurasian powers and peoples who fought with one another for regional domination and reached out for global power. Now a non-Eurasian power is preeminent in Eurasia—and America's global primacy is directly dependent upon how long and how effectively its preponderance on the Eurasian continent is sustained."

This geopolitical view draws upon the earlier "geography as religion" idiocy of Britain's Halford Mackinder and Germany's Karl Haushofer, which provided the figleaf for British geopolitical manipulations that triggered World War I and World War II, in order to halt Eurasian integration. For Brzezinski, control of Transcaucasia, Central Asia, and the Caspian basin is the spoils of American superpower hegemony.

'The Eurasian Balkans'

This belief, that the Transcaucasus-Central Asian region is up for grabs, is already goading the Russian bear into a murderous rage, Brzezinski fumes:

"The emergence of the independent Central Asian states meant that in some places, Russia's southeastern frontier had been pushed back northward more than 1,000 miles. The new states now controlled vast mineral and energy deposits that were bound to attract foreign interests. . . . Supported from the outside by Turkey, Iran, Pakistan, and Saudi Arabia, the Central Asian states have not been inclined to trade their new political sovereignty even for the sake of beneficial economic integration with Russia, as many Russians continued to hope they would. . . . For the Russians, the specter of a potential conflict with the Islamic states along Russia's entire southern flank (which, adding Turkey, Iran, and Pakistan, account for more than 300 million people) has to be a source of serious concern." ~



Zbigniew Brzezinski's policy toward Russia is blunt and brutal: "We should ostracize them."

Speaking of this "Zone of Instability," Brzezinski writes: "The Eurasian Balkans are truly reminiscent of the older, more familiar Balkans of southeastern Europe: not only are its political entities unstable, but they tempt and invite the intrusion of powerful neighbors, each of whom is determined to oppose the region's dominance by another. It is this familiar combination of power vacuum and power suction that justifies the appellation, 'Eurasian Balkans' . . . The Eurasian Balkans . . . are infinitely more important as a potential economic prize: an enormous concentration of natural gas and oil reserves is located in the region, in addition to important raw materials, including gold."

'Ostracize Russia!'

Since writing this lunatic recipe for World War III, Brzezinski has been frequently warning that the subsequent war in Chechnya is merely the harbinger for a "domino effect" by which Russian "neo-colonists," who are motivated by "revenge, paranoia, and nostalgia for empire," may seek to reassert hegemony over Transcaucasia, Central Asia, and the Caspian Sea basin. Not only did Brzezinski's advocacy of this domino theory dominate his keynote address to the CSIS conference (see accompanying article), but he has written a number of commentaries on the subject that have been printed

worldwide. One such is a Nov. 10 piece, "Why the West Should Care About Chechnya." In it, he writes:

"More broadly, the conflict could destabilize the Southern Caucasus. The Northern Caucasus is already a mess, but the flow of refugees and the associated instability is likely to spread to Georgia. A military success in Chechnya is likely to tempt Moscow hard-liners either to subdue or to eliminate Georgian President Eduard Shevardnadze, thereby also subordinating his nation. The fear of such an outcome was palpable when I visited Tbilisi [the capital of Georgia] last month.

"This would be bad news for the U.S.A. A subordinated Georgia would give Russia access to Armenia, already Moscow's dependency, thereby cutting off Azerbaijan (as well as Central Asia) from the West while giving Moscow political control over the Baku-Supsa [Georgia] pipeline."

(It is worth noting that, at least until the 1998 British Petroleum takeover of Amoco, Brzezinski had been a consultant on Caspian Sea oil to Amoco, for a fee that he will not disclose. He helped convince both the Azeri leadership and the Azerbaijan International Operating Company to pursue a very expensive pipeline from Baku to Ceyhan, Turkey, thereby cutting off Russia.)

Brzezinski expanded upon his favorite theme on C-SPAN TV's "Morning Journal" on Dec. 12:

Q: "In this map, this relatively small area is Chechnya. Why should Americans care about what's happening there?"

Brzezinski: "You know, that's a very good question. It was asked about Kosovo. It was asked about East Timor. It was asked about Rwanda. Why should we care? . . . Geopolitically, why should we care? Well, I will make two arguments.

"One, if the Caucasus is destabilized, then any hope of integrating that large, new, more independent area involving the Caspian Sea, involving Central Asia, where there is a fair amount of energy, is going to be lost. It's going to become a zone of conflict. And, secondly, in Russia itself, as the papers today made quite clear, this war is unleashing chauvinistic, nationalistic, imperialistic attitudes, which are setting back the process of transforming Russia. . . .

"In the case of Russia, we have to be realistic. Russia is a major regional power. It has a nuclear arsenal, so we can't use force against them. But, this doesn't mean that we have to do nothing. . . .

"This is why I think we ought to be adopting a position of economic sanctions against Russians, so they would not have the finances to wage this war, which could be done directly, but we continue to give them credits like the IMF has done. We should ostracize them. We should kick them out of the G-8, which allegedly is a club of the good, decent, advanced, democratic countries: Make them feel there is a price for this. Maybe they will acquiesce. Maybe they will not. But, at least we will have tried, and we'll have more or less drawn a line so that they are not inclined to do this again."

Many of Brzezinski's colleagues at CSIS share his desire

for such a raw materials grab in the region, but they differ on the timetable for doing so. One Feb. 11, 1999 background paper for CSIS's Strategic Energy Initiative, "The Geopolitics of Energy in the Former Soviet Union," states that this sort of grab may remain a possibility until well into the twenty-first century.

"At best," according to the report, "a slow recovery can be expected [with the Russian economy], with none of their outputs regaining their 1989 levels before the year 2010 at the earliest."

The report notes that conditions have worsened even more in Russia "in the wake of the August 1998 political, economic, and financial meltdown."

The authors of this report state that this is true throughout the Commonwealth of Independent States (CIS), especially for Russia, Belarus, and Tajikistan, which are "basket cases": "All of the CIS member-states have experienced substantial drops in GDP, industrial output, and real incomes since 1989, owing to the disintegration of the highly integrated economy of the former U.S.S.R. and the severance of the trading link with Comecon [Council for Mutual Economic Assistance], together with the disruption of civil wars, armed hostilities, and mass movement of refugees in, *inter alia*, Chechnya, Moldova, Georgia, Azerbaijan, Armenia, and Tajikistan."

A window of opportunity

This provides a window of opportunity for the "victors" of the Cold War, according to the authors: "The producing potential of the Caspian Sea basin has caught the eye of the major international oil companies for several reasons. First, once unavailable, it is open to the foreign investor; second, the Caspian producing potential is world class; third, this potential and the anticipated income cannot be realized within an acceptable time frame without outside participation; and fourth, given that local demand is minimal and likely to stay that way, most of the oil will be available for export."

What is ironic, is that Russia itself is currently the third-largest producer of oil and natural gas in the world. Other CSIS reports admit that even if the oil in Transcaucasia, the Caspian Sea basin, and Central Asia were developed and pipelines built, it would still only contribute 3% to known potential oil reserves.

If CSIS were truly interested in the "enlightened self-interest" of the United States, rather than the lunatic geopolitical theories of Brzezinski, it would behoove CSIS to advocate joint development of Russia's oil and natural gas capacity, which presently is dropping due to the lack of new capital inputs, exploration, and technology. (China, for example, is investigating the possibility of natural gas pipelines both to Turkmenistan and to Siberia.) It would seem that those like Brzezinski, with his "New Carter Doctrine," are more interested in reviving the Cold War, and with it the potential for World War III.